Market Intelligence & Analytics

CRISIL
An S&P Global Company

Analysis of Housing Finance Market in India

For Bajaj Housing Finance Limited

June 2024

Contents

Macroeconomic scenario in India 3
Overview and Market Landscape of NBFCs in India 22
Housing scenario in India 30
Overview of Housing Finance Market of India 44
Overview of Prime Housing Finance Market in India 54
Overview of Affordable Housing Finance Market in India (<Rs.2.5 million) 58
Loan Against Property (LAP) 66
Overview of Real Estate Financing and Lease Rental Discounting 76
Peer Benchmarking 81
List of formulae 90

Macroeconomic Scenario in India

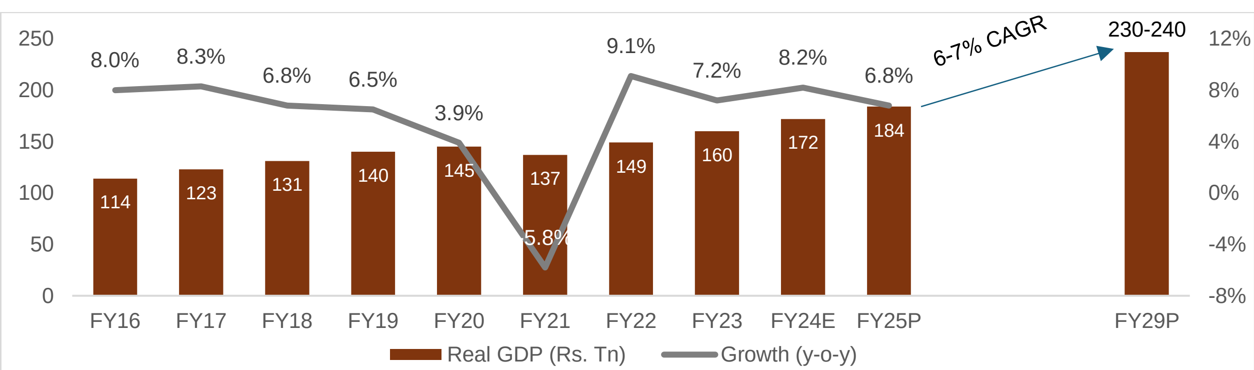
Global economy is witnessing tightening of monetary conditions

The global economy is witnessing tightening of monetary conditions in most regions (United States of America, United Kingdom among others). As per the International Monetary Fund (IMF) (World Economic Outlook Update – April 2024), global growth prospects for FY24 and FY25 will hold steady at 3.2%. The trade outlook for the calendar year 2024 is expected to be negatively impacted by geopolitical frictions, persisting inflation and lower global demand. Furthermore, deceleration in domestic growth could lead to some softening in imports. The central bank policy rates expected to be elevated to fight inflation amid withdrawal of fiscal support and low underlying productivity growth. Due to restrictive monetary policy, inflation is falling in most regions. As per IMF (World Economic Outlook Update – April 2024), global headline inflation is expected to be around 5.9% in 2024 and 4.5% in 2025.

India expected to remain one of the fastest growing economies in the world

The Indian economy was among the fastest-growing in the world prior to onset of the Covid-19 pandemic. In the years leading up to the global health crisis which disrupted economic activities, the country's economic indicators posted gradual improvements owing to strong local consumption and lower reliance on global demand Despite global geopolitical instability, India continues to maintain its position as one of the fastest-growing economies globally. In February 2024, the National Statistical Office (NSO) in its second advance estimate of national income estimated the real GDP to grow at 7.6% year-on-year basis in fiscal 2024, while Q4 FY24, growth was much stronger than 5.9% factored in in the second advance estimates of the National Statistics Office (NSO) in February. This prompted NSO to revise the FY24 GDP growth estimate to 8.2%. Going forward, CRISIL MI&A expects a moderation in GDP growth rate to 6.8% in FY25, largely due to factors such as demographic advantage, robust domestic demand, economic reforms, manufacturing and infrastructure development, technological advancements, and digital push.

India's economy expected to grow at 6.8% in fiscal 2025

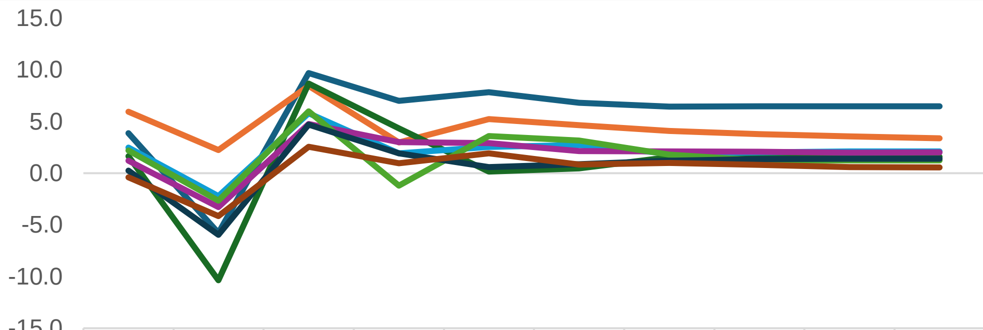


Note: E = Estimated, P = Projected; GDP growth till fiscal 2023 is actuals. GDP Estimates for fiscals 2023- 2024 is based on NSO

Estimates and 2024-2025 is projected based on CRISIL MI&A estimates and that for fiscals 2025-2029 based on IMF estimates; Source: NSO, CRISIL MI&A, IMF (World Economic Outlook – April 2024 update)

Over the past three fiscals (FY22-24), Indian economy has outperformed its global counterparts by witnessing a faster growth. Going forward as well, IMF projects that Indian economy will remain strong and would continue to be one of the fastest growing economies.

India is one of the fastest-growing major economies (GDP growth, % year-on-year)



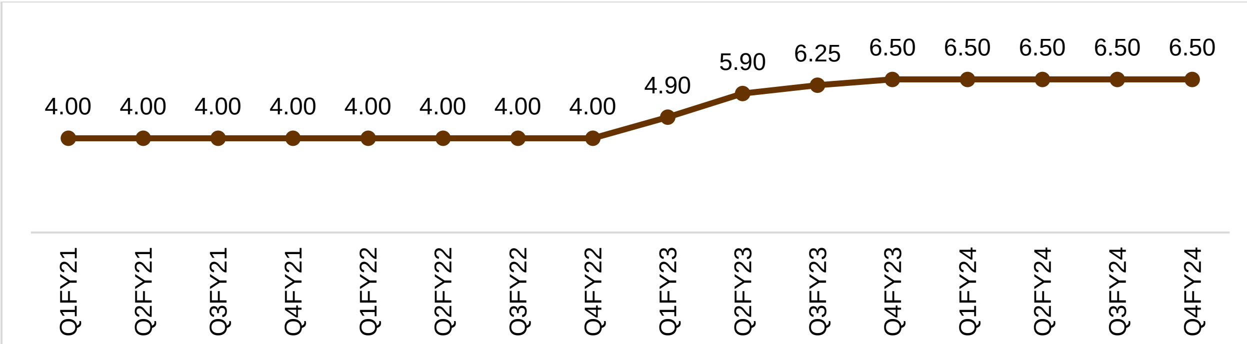
	2019	2020	2021	2022	2023	2024E	2025P	2026P	2027P	2028P
India	3.9	-5.8	9.7	7.0	7.8	6.8	6.5	6.5	6.5	6.5
China	6.0	2.2	8.5	3.0	5.2	4.6	4.1	3.8	3.6	3.4
United Kingdom	1.6	-10.4	8.7	4.3	0.1	0.5	1.5	1.7	1.7	1.6
United States	2.5	-2.2	5.8	1.9	2.5	2.7	1.9	2.0	2.1	2.1
Brazil	1.2	-3.3	4.8	3.0	2.9	2.2	2.1	2.1	2.0	2.0
Russia	2.2	-2.7	6.0	-1.2	3.6	3.2	1.8	1.3	1.3	1.3
South Africa	0.3	-6.0	4.7	1.9	0.6	0.9	1.2	1.4	1.4	1.4
Japan	-0.4	-4.1	2.6	1.0	1.9	0.9	1.0	0.8	0.6	0.6

Note: All forecasts refer to IMF forecasts. GDP growth is based on constant prices, Growth numbers for India till 2022 are for financial year, 2023 is as per IMF estimates for FY23. Post FY24, all estimates for India are as per calendar year. Data represented for other countries is for calendar years, E: Estimated, P: Projected; Source: IMF (World Economic Outlook – April 2024), CRISIL MI&A

Repo rate remains unchanged, with phase of aggressive rate hikes behind us

The current fiscal begins with unchanged repo rates by the RBI. Globally, major central banks are currently cautious about cutting rates, amid slower disinflation and strong growth. On the domestic front, while the forecast of an above-normal monsoon bodes well for disinflation, freak weather events and crude oil prices are the lurking risks. The Reserve Bank of India's (RBI) MPC in its April 2024 meeting voted to keep the policy rates unchanged, with a 5-1 majority. The repo rate remains at 6.50%, standing deposit facility (SDF) at 6.25%, and marginal standing facility (MSF) at 6.75% It also maintained status quo on the 'withdrawal of accommodation' stance, with a 5-1 majority.

Repo rate in India (%)

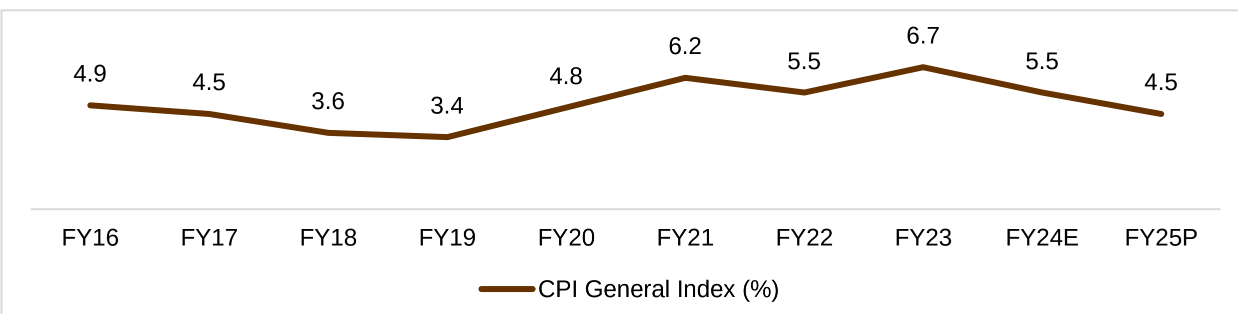


Source: RBI, CRISIL MI&A

Consumer Price Index ("CPI") inflation to average at 4.5% in FY25

Consumer price index (CPI) inflation eased to a five-month low of 4.9% in March 2024 from 5.1% in February. While core inflation declined to a record low of 3.3%, fuel deflated 3.2% on the back of lower domestic fuel prices. The worry, though, remains on persistently high food inflation, at 8.5%. Higher cereals inflation, erratic vegetable inflation and elevated pulses inflation are a cause of concern given the India Meteorological Department's (IMD) prediction of higher-than-normal temperatures between April and June 2024. CRISIL MI&A expects CPI inflation to continue to soften in FY25 to 4.5% from an estimated 5.5% in FY24, supported by the assumption of a normal monsoon, softer domestic demand, and benign global oil prices.

Inflation to moderate to 4.5% in Fiscal 2025



Note: E = Estimated; P = Projected, Source: CRISIL MI&A

Macroeconomic outlook for FY25

Macro variables	FY24E	FY25P	Rationale for outlook

Real GDP (y-o-y)	8.2%	6.8%	Slowing global growth is likely to weaken India's exports, while peak impact of past rate hikes and lower fiscal impulse could temper domestic demand. Despite the lower forecast, India continuous to grow at the highest rate among major economies propelled by budgetary support to capital expenditure and strong rural demand to support growth.
Consumer price index (CPI) inflation (y-o-y)	5.5%	4.5%	Lower commodity prices, base effect, and cooling off domestic demand is likely to help in moderating inflation in FY25.
10-year Government security yield (Fiscal end)	7.0%	6.8%	A moderate reduction in gross market borrowings to lower pressures on yields in FY25. This, coupled with lower inflation, is likely to moderate yields in FY25. India's inclusion in the JP Morgan Emerging Market Bond Index is favourable for capital flows into government debt.
Fiscal Deficit (% of GDP) *	5.8%	5.1%	Persistent efforts in fiscal consolidation aided by moderation in revenue spend and robust tax collections to bring down the deficit and lead to lower government market borrowings.
CAD (current account balance/GDP) (%)	-1.0%	-1.0%	Softer crude oil prices and moderation in domestic growth will keep the trade deficit in check despite tepid exports of goods. Alongside, robust services trade surplus and healthy remittances will keep the current account deficit (CAD) in check
Rs/$ (March average)	83.0	83.5	Narrower CAD and healthy foreign portfolio flows into debt amid a favourable domestic macro environment will support the rupee

*E – Estimated, P – Projected, *FY24 and FY25 numbers are government's revised and budget estimates; Source: Reserve Bank of India (RBI), National Statistics Office (NSO), CRISIL MI&A*

Positive government measures to aid economic growth for India

- The Interim Budget of 2024-25 announced a 17.7% rise in capital expenditure in the next fiscal with infrastructure sectors seeing an increase in allocations. Budgeted capex allocation for the next fiscal is 4.6% of the GDP, which is up from 4.3% for fiscal 2024. Public sector capex has also gone up to 5.6%. In a year where the Indian economy is expected to see a cyclical slowdown owing to global slowdown and impact of interest rates and tightening financial conditions on domestic demand, higher capex would support growth in the economy. Policy pushes and new age opportunities such as cutting-edge technologies, digitization, cashless economy, and decentralization of services to lead capex growth in Fiscal 2025.
- Budgetary support towards rural areas through rural employment and incomes will support rural demand. Aggregate spends on the four key schemes – Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), Pradhan Mantri Awas Yojana (Gramin) (PMAY-G), Pradhan Mantri Gram

Sadak Yojana (PMGSY) and Pradhan Mantri Kisan Samman Nidhi (PM-Kisan) are budgeted to increase 13.2% year-on-year in FY25 after a ~10% drop in each of the previous two fiscals.

Key structural reforms: Long-term positives for the Indian economy

- The GST regime has been stabilizing fast and is expected to bring more transparency and formalization, eventually leading to higher economic growth. Number of GST returns filed saw a ~38% jump from FY19 (~169 million) to FY23 (~232 million), till January 2024 a total of ~90 million GST returns have been filed in FY24.
- PMAY was introduced in 2015 to provide affordable housing for all by the end of 2022. The timelines were revised to fiscals 2024 and 2025 for PMAY-Gramin and PMAY-Urban respectively due to delays in completion. Execution under the scheme has been encouraging with ~2.60 crores houses being completed as of May 2024, out of the targeted 2.95 crore houses. The target for the next five years has been further increased by ~2 crore houses in the FY25 budget estimate; a 68% addition to the current target of ~3 crore houses. The move provides an impetus to the real estate sector as well its stakeholders including – developers, engineering, procurement and construction contractors, allied industries such as steel, cement etc.
- The government has also launched the JAM trinity which aims to link Jan Dhan accounts, mobile numbers and Aadhar cards of all Indian nationals to transfer cash benefits directly to the bank account of the intended beneficiary and avoid leakage of government subsidies.
- Government launched the Digital India program, on 1st July 2015 with the vision of transforming India into a digitally empowered society and a knowledge-based economy, by ensuring digital access, digital inclusion, digital empowerment and bridging the digital divide. Some of the key initiatives and related progress under Digital India are as follows-
    - Unified Mobile Application for New-age Governance (UMANG) – for providing government services to citizens through mobile. More than 1,984 e-Services as of March 2024 and over 4 billion transactions have taken place on UMANG as of March 2024.
    - Unified Payment Interface (UPI) is the leading digital payment mechanism, it has onboarded 550+ banks and has facilitated more than 13,440 million transactions (by volume) worth Rs 19.7 trillion in March 2024.
    - Cyber Security: The Government has taken necessary measures to tackle challenges about data privacy and data security through introducing the Information Technology (IT) Act, 2000 which has necessary provisions for data privacy and data security.
    - Common Services Centers – CSCs are offering government and business services in digital mode in rural areas through Village Level Entrepreneurs (VLEs). Over 400 digital services are being offered by these CSCs. As of March 2024, 0.58 million CSCs are functional (including urban & rural areas) across the country, out of which, 0.47 million CSCs are functional at Gram Panchayat level.

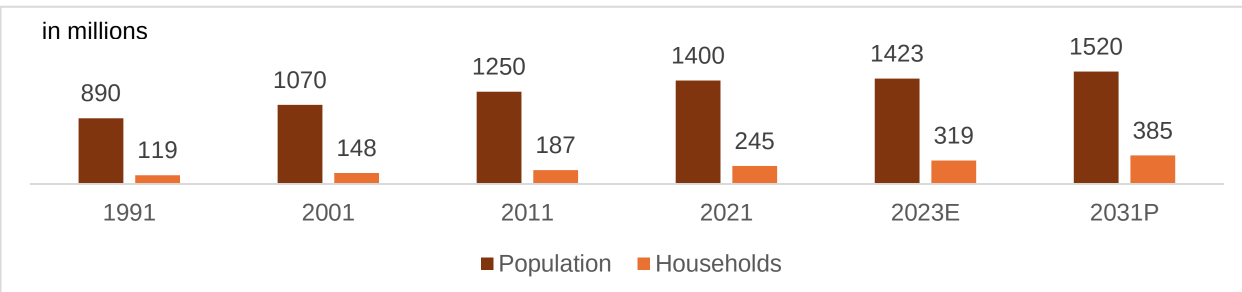
Overall, these initiatives will improve the digital connectivity of Indians along with boosting business sentiment, thereby creating new opportunities.

Key growth drivers

India has the world's largest population

As per Census 2011, India's population was ~1.25 billion, and comprised nearly 245 million households. The population, which grew at nearly 1.5% CAGR between 2001 and 2011, is expected by CRISIL MI&A to increase at 1.1% CAGR between 2011 and 2021 to reach 1.40 billion. The population is expected to reach 1.5 billion by 2031, and the number of households are expected to reach ~385 million over the same period.

India's population growth trajectory and number of households

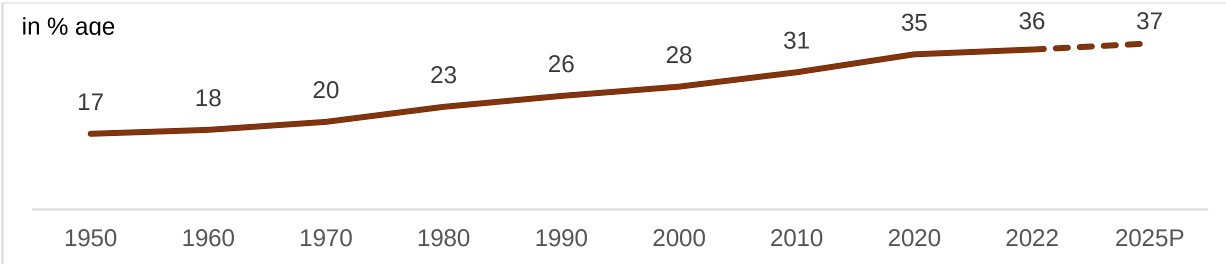


Note: As at the end of each Fiscal. P: Projected, Source: United Nations Department of Economic and Social Affairs, (https://population.un.org/wpp/), Census India, CRISIL MI&A

Urbanization

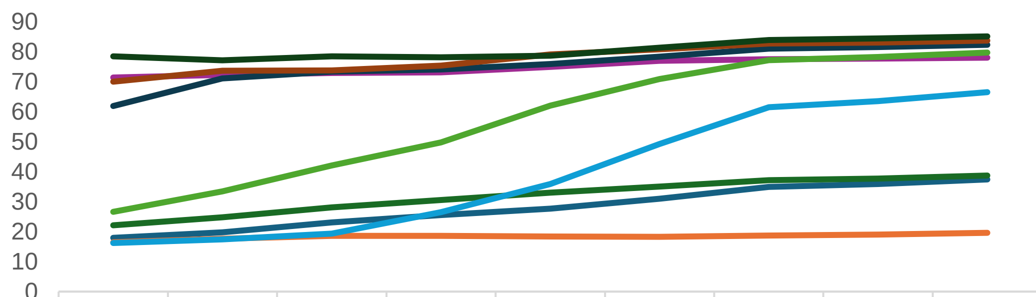
Urbanisation is one of India's most important economic growth drivers. It is expected to drive substantial investments in infrastructure development, which in turn is expected to create jobs, develop modern consumer services, and increase the ability to mobilise savings. India's urban population has been rising consistently over the decades. As per the 2018 revision of World Urbanization Prospects, the urban population was estimated at 36% of India's total population in 2022. According to the World Urbanization Prospects, the percentage of the population residing in urban areas in India is expected to increase to 37.4% by 2025.

Urban population as a percentage of total population (%)



Note: E- Estimated, P – Projected, Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

Urban population as a percentage of total population globally



	1960	1970	1980	1990	2000	2010	2020	2022	2023
India	17.9	19.8	23.1	25.5	27.7	30.9	34.9	35.9	37.4
Sri Lanka	16.4	17.6	18.6	18.5	18.4	18.2	18.7	19.0	19.6
Pakistan	22.1	24.8	28.1	30.6	33.0	35.0	37.2	37.7	38.7
China	16.2	17.4	19.4	26.4	35.9	49.2	61.4	63.6	66.5
Germany	71.4	72.3	72.8	73.1	75.0	77.0	77.5	77.6	78.0
Malaysia	26.6	33.5	42.0	49.8	62.0	70.9	77.2	78.2	79.7
France	61.9	71.1	73.3	74.1	75.9	78.4	81.0	81.5	82.3
United States	70.0	73.6	73.7	75.3	79.1	80.8	82.7	83.1	83.7
United Kingdom	78.4	77.1	78.5	78.1	78.7	81.3	83.9	84.4	85.1

Note: P: Projected ; Source: Census 2011, World Urbanization Prospects: The 2018 Revision (UN)

Increasing per capita GDP

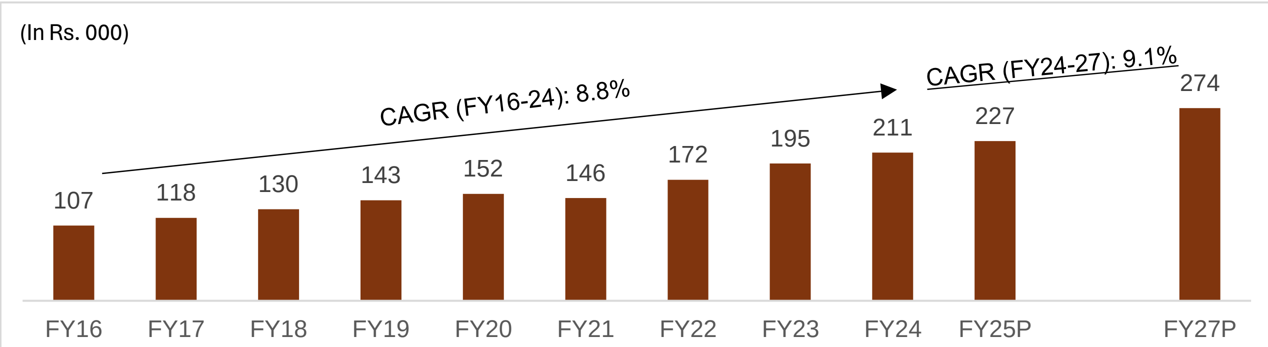
India's per capita net national income expanded 6.7%% in fiscal 2024, reflecting robust economic growth and the government's continued endeavor to make the country an upper middle-income economy. In FY23, India's per capita income expanded by 5.9%. As per IMF estimates, India's per capita income (at constant prices) is expected to grow at 5-6% CAGR in real terms from FY24 to FY27.

Per capita NNI	FY2024 (Rs. '000)		Growth at constant prices (%)										
	Current prices	Constant prices	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
	183	106	4.6	6.2	6.7	6.8	5.7	5.8	2.9	-7.6	7.6	5.9	6.7

Note: P – projected. (^) Per capita NNI as per Second Advance Estimates of National Income, 2023-24

Source: Ministry of Statistics and Program Implementation (MoSPI), International Monetary Fund (IMF), CRISIL MI&A

Trend in Nominal GDP per capita (at current prices)

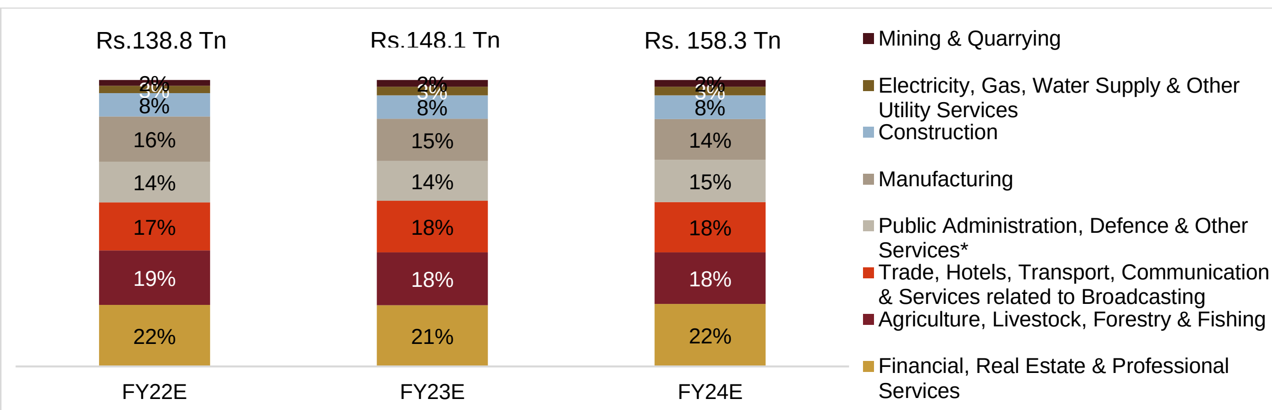


Note: P - projected. FY24 estimates are based on second advance estimates by MoSPIFY25 – FY27 Projections based on IMF – World Economic Outlook (April 2024 update)

Source: MOSPI, IMF, CRISIL MI&A

Contribution of different sectors to India's growth

Trend in Gross Value Added (GVA) at current prices by economic activity denotes that financial, real estate and professional services have consistently contributed the highest to the GVA and contributed an estimated 22% in fiscal 2024 and stood at Rs. 34,820 Bn., Total GVA at current prices witnessed a CAGR of 6.9% from FY22 to FY24.



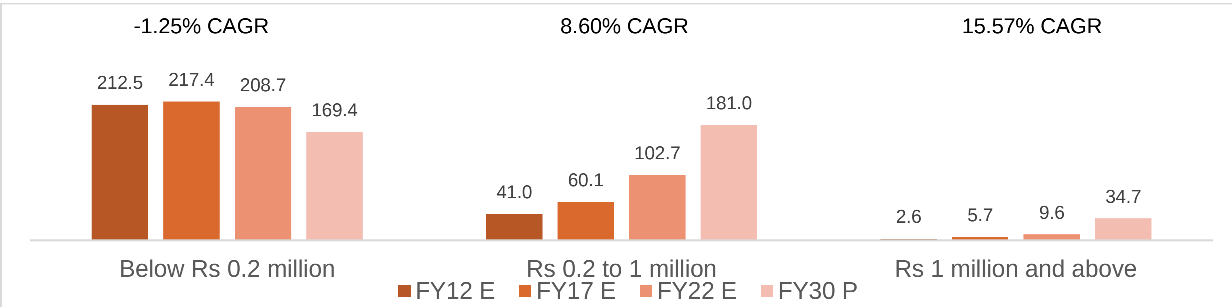
*Note: *- Public Administration, Defense & Other Services category includes the Other Services sector i.e. Education, Health, Recreation, and other personal services; E- Estimated; Fiscal 2022 are Revised Estimates, Fiscal 2023 are Provisional Estimates, Fiscal 2024 are First Advance Estimates as per NSO.*
Source: MOSPI, CRISIL MI&A

Aspirational Indian population to help sustain growth for the country

Proportion of Aspirational India (defined as households with annual income of between Rs. 0.2 to 1 million) has been on a rise over the last decade and is expected to grow further with continuous increase in the

GDP and household incomes. CRISIL MI&A estimates that there were 41 million aspirational households in India as of FY12, and by FY30, they are projected to increase to 181 million households. A large number of these households, which have entered the aspirational Indian bracket in the last few years, are likely to be from semi-urban and rural areas. CRISIL MI&A believes that the improvement in the literacy levels, increasing access to information and awareness, increases in the availability of necessities, and the improvement in road infrastructure has led to an increase in aspirations, which is likely to translate into increased opportunities for financial service providers.

Aspirational India households (annual income between Rs. 0.2 to 1 million) to witness moderate growth over FY12 to FY30

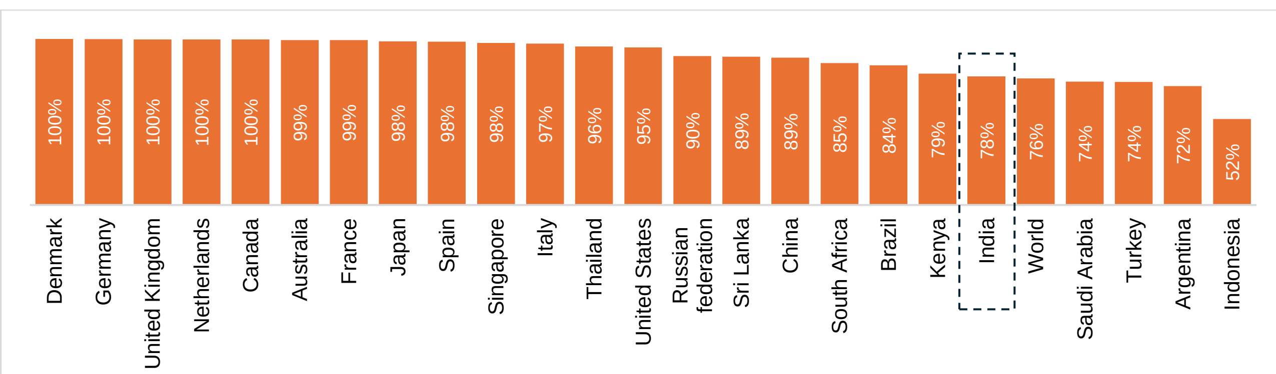


Note: E: Estimated, P: Projected; Source: CRISIL MI&A

Financial Inclusion on a fast path in India

According to the World Bank's Global Findex Database 2021, the global average of adult population with an account opened with a bank, financial institution, or mobile money provider, was approximately 76% in calendar year 2021. India's financial inclusion has improved significantly over calendar years 2014 to 2021 as adult population with bank accounts increased from 53% to 78% (Source: Global Findex Database) due to the Indian government's concentrated efforts to promote financial inclusion and the proliferation of supporting institutions.

Adult population with a bank account (%): India vis-à-vis other countries (2021)

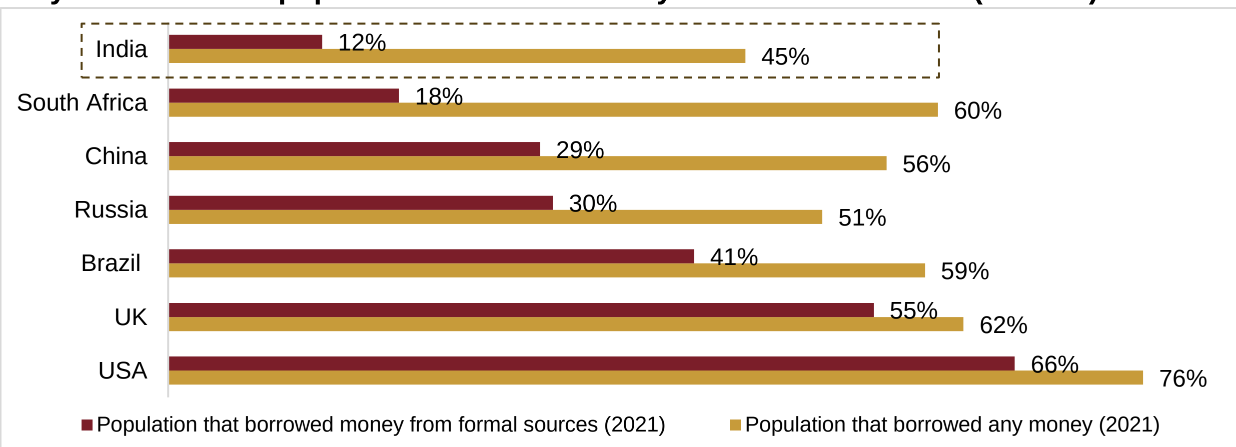


Note: 1. Global Findex data for India excludes northeast states, remote islands, and selected districts. 2. Account penetration is for the population within the age group of 15+, Source: World Bank – The Global Findex Database 2021, CRISIL MI&A

A significant proportion of the population still lacks access to formal banking facilities. According to NABARD All India Rural Financial Inclusion Survey 2016-17, 40% loans were reported as taken from non-institutional investors or informal channels like relative and friends, money lenders and local landlords.

According to the World Bank's Global Findex Database 2021, only 12% of the Indian population borrowed money through a formal channel like financial institutions which has increased significantly from 8% in 2017, this is very low compared to other developed and developing countries.

Only 12% of India's population borrowed money from formal sources (CY2021)

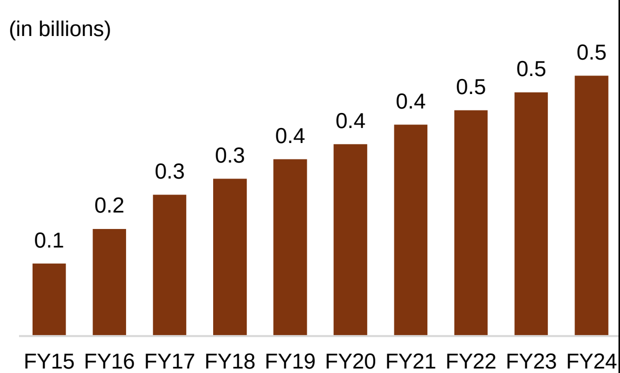


Note: 1. Global Findex data for India excludes northeast states, remote islands, and selected districts. 2. Data is for the population within the age group of 15+ 3. Money borrowed from formal sources includes money borrowed from Banks, NBFCs and usage of credit card.

Source: World Bank - The Global Findex Database 2021, CRISIL MI&A

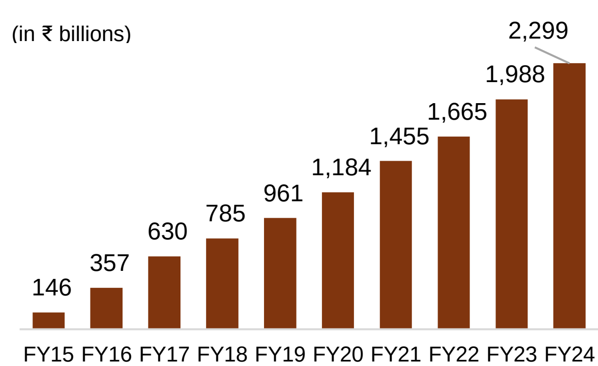
Multiple initiatives have been taken by the Government of India to promote financial inclusion in the nation, the government also launched the Pradhan Mantri Jan Dhan Yojana to provide banking services to all households in the country. As of 31st March 2024, ~0.52 billion PMJDY accounts had been opened, of which 67% were in rural and semi-urban areas, with total deposits of Rs. 2,299 billion.

Number of PMJDY accounts



Source: PMJDY; CRISIL MI&A

Total balance in PMJDY accounts

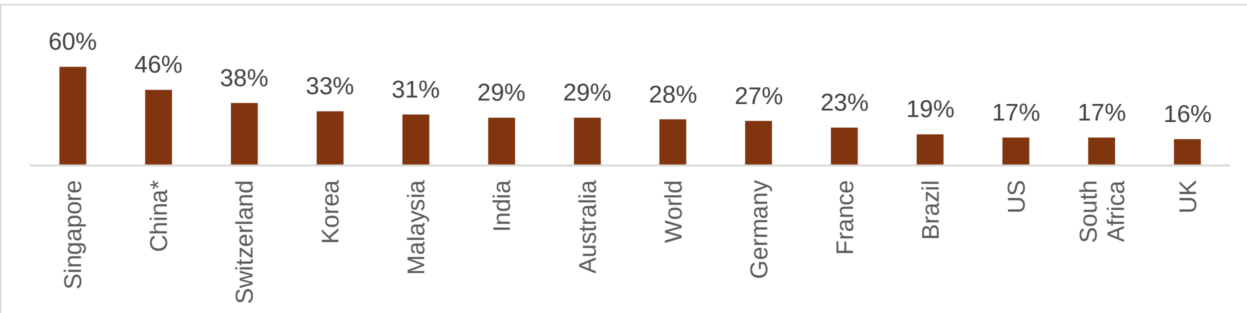


Source: PMJDY; CRISIL MI&A

Household savings expected to increase

India's slowing economy took a toll on much-needed savings too, with the Gross Domestic savings rate touching a 15-year low in FY20 to ~27%, post which in the next two fiscals the savings have witnessed a growth and touched ~30% during FY22. Despite the slow-down, India remains favorable in terms of gross domestic savings rate compared with most other emerging market peers at 29% in FY22, greater than the world average of 28%.

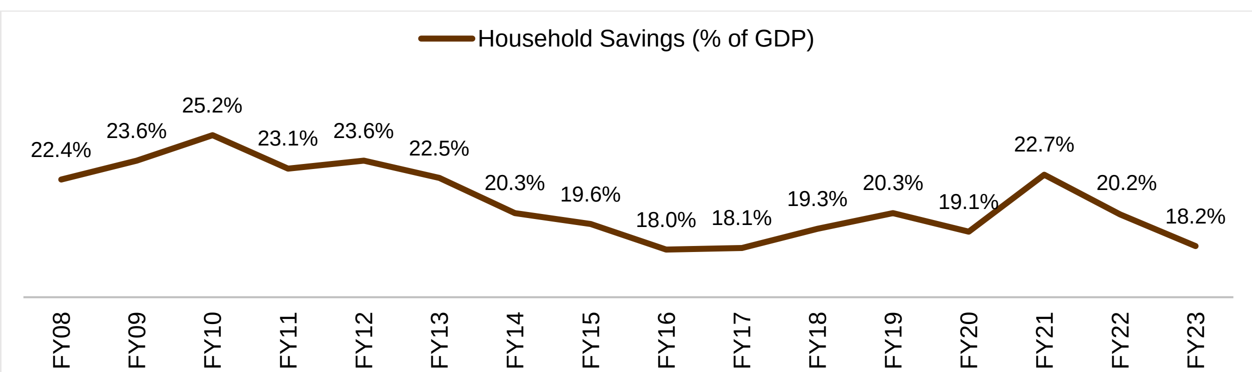
India's gross domestic savings rate is higher than global average (2022)



Note: Gross Domestic Saving consists of savings of household sector, private corporate sector and public sector; (*) Data as of CY2022; Source: World Bank[1], Handbook of Statistics on Indian Economy 2022-23, RBI, MOSPI, CRISIL MI&A

Specifically, household savings as a percentage of GDP has been sliding since FY12 potentially due to an increase in borrowings for consumption needs posed by higher inflation rates, with its share as a proportion of GDP falling significantly from 23.6% in FY12 to 18.0% in FY16. Household saving increased significantly in FY21 to reach 22.7%, post which it declined to 20.2% in FY22 and in FY23, household savings as percentage of GDP stood at 18.2%. CRISIL MI&A expects India to continue being a high savings economy owing to higher gross domestic savings rate as compared to world average.

Household savings as a percentage of GDP declined in FY22 and FY23



Source: Ministry of Statistics and Programme Implementation (MOSPI), RBI, CRISIL MI&A

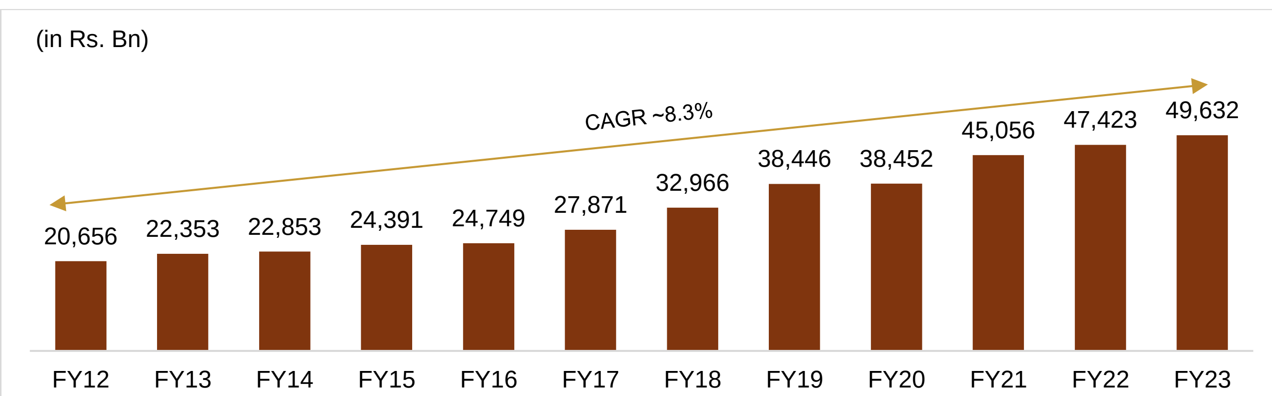
Gross domestic savings trend

Parameters (Rs. Billion)	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
GDS	36,082	40,200	42,823	48,251	54,807	60,004	59,411	57,869	73,631	81,500
Household sector savings (net financial savings, savings in physical assets and in the form of gold and silver ornaments)	22,853	24,391	24,749	27,871	32,966	38,446	38,452	45,056	47,423	49,632
Household sector savings as proportion of GDS (%)	63%	61%	58%	58%	60%	64%	65%	78%	64%	61%
Gross financial savings	11,908	12,572	14,962	16,147	20,564	22,637	23,246	30,670	26,120	29,736
Gross financial savings (% of GDS)	33.0%	31.3%	34.9%	33.5%	37.5%	37.7%	39.1%	53.0%	35.5%	36.5%
Financial liabilities	3,587	3,768	3,854	4,686	7,507	7,712	7,747	7,374	8,993	15,572
Savings in physical assets	14,164	15,131	13,176	15,946	19,442	23,095	22,522	21,355	29,683	34,834
Savings in physical assets as a proportion of GDS (%)	39%	38%	31%	33%	35%	38%	38%	37%	40%	43%
Savings in the form of gold and silver ornaments	368	456	465	465	467	427	431	405	613	634

Note: The data is for financial year ending March 31. Physical assets are those held in physical form, such as real estate, etc.

Source: MOSPI, National Accounts Statistics, CRISIL MI&A

Household savings growth



Note: The data is for the financial year ending March 31.

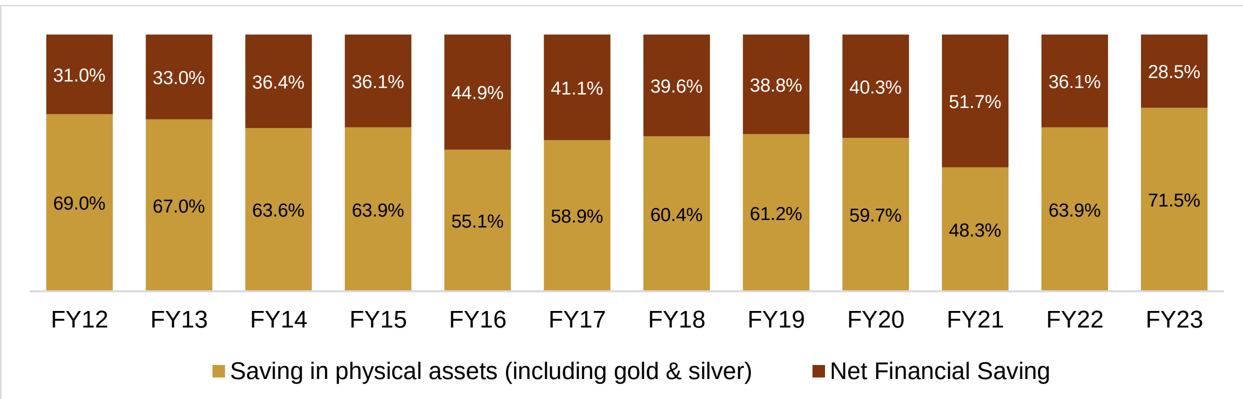
Source: MOSPI, CRISIL MI&A

CRISIL MI&A expects India to continue being a high savings economy and savings rate increasing in the medium-term, as households become more focused on building a budget and financial plan for the future post the COVID-19 pandemic-induced uncertainty.

Physical assets still account for majority of the savings

Unlike most other countries, where financial savings account for a significant proportion of savings, physical assets in the form or real estate, gold and silver still account for most household savings in India. Household savings in physical assets witnessed an increase to 71% in FY23 from 69% in FY12. The share of savings in physical assets dipped during FY21 (covid pandemic year) to 48% due to nation-wide lockdowns and slowdown in household construction. Post covid, during FY22 with opening of lockdown's this share increased significantly to 63.9% and further to 71.5% in FY23, due to increase in prices of gold and silver during the fiscals along with rise in construction of houses. Going forward, CRISIL MI&A expects the share of financial assets as a proportion of net household savings to increase over the next five years.

Trend of household savings in India

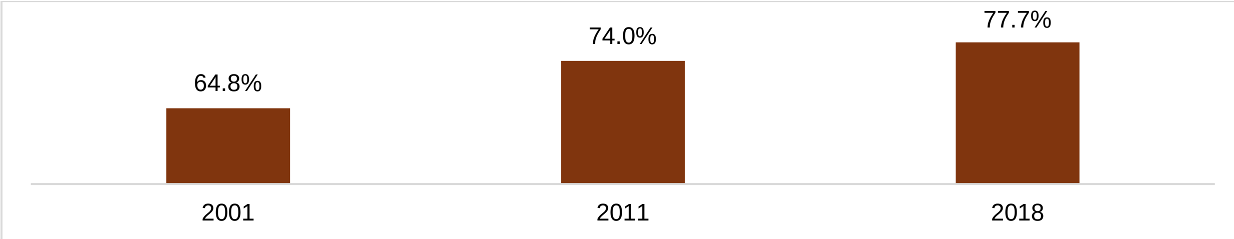


Note: The data is for financial year ending March 31, Source: Handbook of Statistics on Indian Economy 2022-23, RBI, MOSPI, CRISIL MI&A

Financial penetration to rise with increase in awareness of financial products

Overall literacy rate in India is at 77.7% as per the results of recent NSO survey conducted from July 2017 to June 2018, which is still below the world literacy rate of 86.5%. However, according to the National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019, only 27% of Indian population is financially literate indicating huge gap and potential for financial services industry. The survey defines financial literacy as combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. As per Multiple survey indicator for 2020-21, launched in 2023, 89.4% of total adult population of India had a bank account in any financial institution, the report also stated that 92.4% of the male adult population and 86.3% of female adult population in India had a bank account in any financial institution.

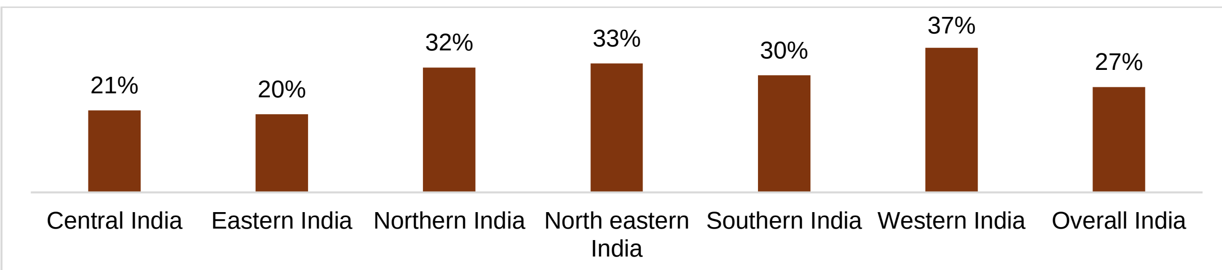
Overall literacy rate on the rise in India



Source: Census 2011, NSO Survey on household social consumption (2017-18),CRISIL MI&A

With increasing financial literacy, mobile penetration, awareness, and the Prime Minister's Jan Dhan Yojana bank accounts (scheme aimed at bringing the unbanked under the formal banking system), there has been a rise in the participation of individuals from non-metro cities in banking. With more people attached to the formal banking sector, the demand for financial products in smaller cities has seen a major uptick in recent years. Going forward, CRISIL MI&A expects financial penetration to increase on account of increasing financial literacy.

Financial Literacy across India as of 2019



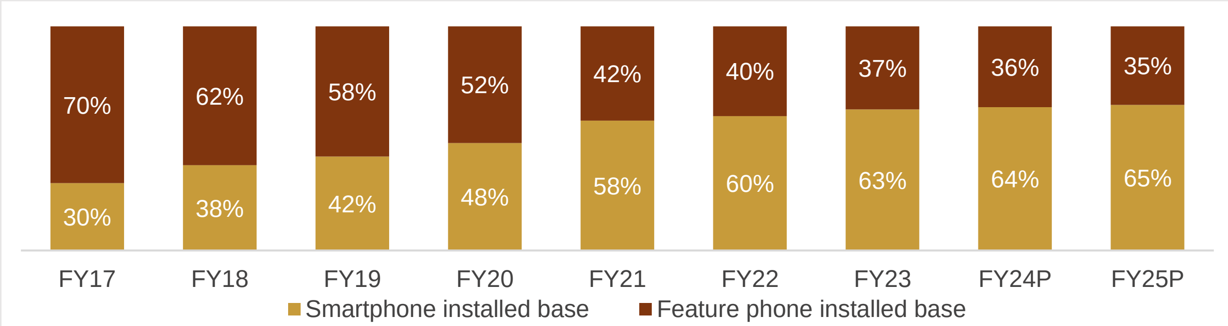
Source: National Financial Literacy and Inclusion Survey (NCFE-FLIS) 2019 Report, National Centre for Financial Education

Digitization to support economic growth and financial services

Technology is expected to play a pivotal role in taking the financial sector to the next level of growth, by helping to surmount challenges stemming from India's vast geography, which makes physical footprints in smaller locations commercially unviable. Technology is conducive for India, considering its demographic structure where the median age is less than 30 years. The young population is tech savvy and at ease with using it to conduct the entire gamut of financial transactions. With increasing smartphone penetration and faster data speeds, consumers are now encouraging digitization as they find it more convenient. Digitization is expected to help improve efficiency and optimize costs. Players with better mobile and digital platforms are expected to draw more customers and emerge as winners in the long term.

Mobile penetration: Higher mobile penetration, improved connectivity, and faster and cheaper data speed, supported by Aadhaar and bank account penetration have led India to shift from being a cash-dominated economy to a digital one.

Data-savvy and younger users to drive adoption of smartphones



Note: E: Estimated, P: Projected; Source: CRISIL MI&A

Rise in 4G and 5G penetration and smartphone usage

As per projections, India had 1,170 million wireless subscribers at the end of FY24. The reach of mobile network, internet and electricity is continuously expanding the subscriber footprint to remote areas leading to rising smartphone and internet penetration in India. In FY23, 5G was launched which led to conversion of 25 million subscribers to 5G, as it was offered at 4G data prices. In FY25, CRISIL MI&A expects 5G subscribers to rise drastically to 100 million and 150 million respectively since data consumption will increase due to high usage on OTT platforms, in education services, banking services, healthcare, and the gaming industry.

All-India mobile and data subscriber base

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24P	FY25P
Wireless subscribers (million)	1,170	1,183	1,162	1,157	1,181	1,142	1,144	1,170	1,189
Data subscribers (million)	401	473	615	720	799	814	883	917	933
Data subscribers as a proportion of wireless subscribers	34%	40%	53%	62%	68%	71%	77%	78%	78%
4G data subscribers (million)	131	287	478	645	719	734	786	746	713
4G data subscribers' proportion	33%	61%	78%	90%	90%	90%	89%	81%	76%

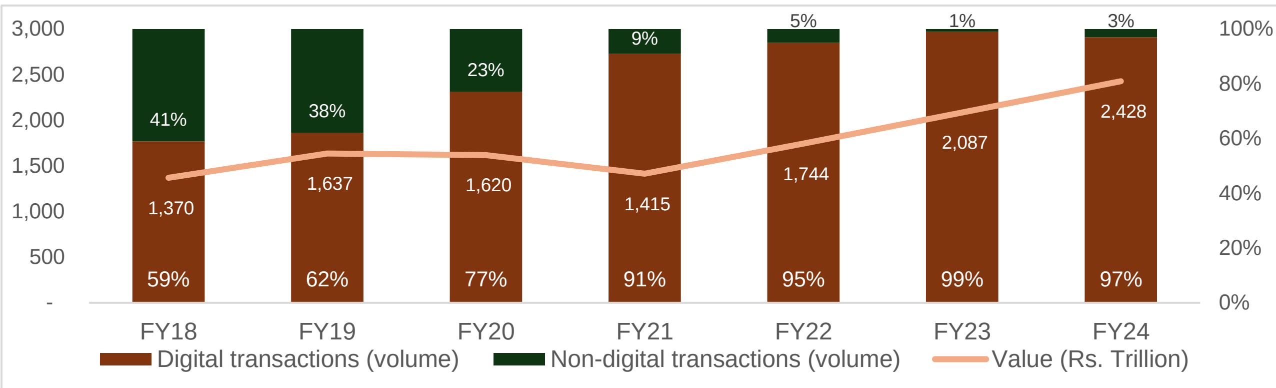
Note: P: Projected, Source: TRAI, CRISIL MI&A

Proportion of data subscribers is hence expected to rise to ~78% in FY25 from ~62% at FY20. India's 4G data rates are among the lowest in the world. So, a combination of affordable handsets, growing consumer preference for data on the go and affordable data tariffs are set to accelerate the adoption of wireless internet in India, leading to a 4G data subscriber proportion at ~90% in FY23.

Digital payments have witnessed substantial growth

Total digital payments in India have witnessed significant growth over the past few years. Between FY18 and FY24, the volume of digital payments transactions has increased from 14.6 billion to 164.4 billion, growing at a CAGR of ~50%, causing its share in overall payment transactions to increase from 59% in FY18 to 97% in FY24. During the same period, the value of digital transactions has increased from Rs. 1,370 trillion in FY18 to Rs 2,428 trillion in FY24. Consumers are increasingly finding transacting through mobile convenient. CRISIL MI&A expects the share of mobile banking and prepaid payment instruments to increase dramatically over the coming years. In addition, CRISIL MI&A expects improved data connectivity, low digital payment penetration and proactive government measures to drive digitalization in the country, transforming it into a cashless economy.

Trend in value and volume of digital payments



Note: Digital Payments includes RTGS payments, Credit transfers (AePS, APBS, ECS Cr, IMPS, NACH, NEFT, UPI), Debit Transfers (BHIM, ECS Dr, NACH Dr, NETC), Card Payments (Debit and Credit Cards) and Prepaid Payments Instruments; Source: RBI, CRISIL MI&A

Credit Through UPI

The RBI recently announced a proposal to broaden the United Payments Interface (UPI) scope by allowing transfer to and from pre-sanctioned credit lines with banks. Previously to this announcement, only amounts held in bank deposits could be transferred through the UPI, this will allow overdraft accounts, credit cards and prepaid wallets to be eligible for linking to UPI. As per the announcement, this step enables the inclusion of credit lines as a funding account.

Digital Public infrastructure reforms by Government of India

Digitization improves the transparency and efficiency of government processes, and widespread digital transformations help governments and institutions with policy implementation and broad policy outreach. However, digital platforms built too specific or narrowly for a particular context may not be the most effective or efficient as policies, governing objectives, and societal conditions change. The key idea for Digital Public Infrastructure (DPI) is not the complete digitization of narrow public services but the establishment of a building block of digital modularity, which can be used modularly by both government and private players to create the specific digital infrastructure required. The India Stack is a collective name for a set of open APIs and public goods in digital form.

Open Credit Enablement Network (OCEN)

Open Credit Enablement Network (OCEN) was introduced as a step for promoting financial inclusion and democratization of credit in India. OCEN is set of open standards which facilitates interactions and collaborations among borrowers, lenders, lending service providers, and technology service providers. This will help various digital platforms in leveraging their position in delivery of credit and value addition in lending value chain. Moreover, OCEN will also promote innovation in distribution of credit, making loans accessible to MSMEs, small vendors and individuals, leading to financial inclusion.

Use of generative AI and new technologies increasing productivity

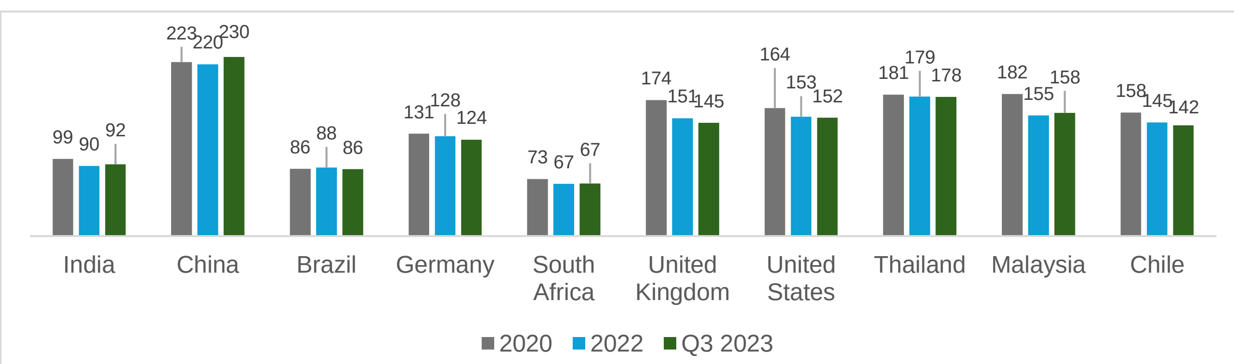
Generative AI, or Gen AI, leverages extensive training on large datasets to swiftly produce diverse content forms like text and multimedia in response to prompts. Gen AI, exemplified by ChatGPT in BFSI, enables efficient, conversational banking, delivering prompt and responses, enhancing customer experiences, and saving time. Gen AI does well in fraud prevention, where it can swiftly detect potentially fraudulent activity by analysing customer behaviour patterns. This can help BFSI companies to take proactive measures to help bolster transaction security. Gen AI aids in risk analysis & synthetic data generation. This helps to offer detailed insights from intricate financial datasets which can be employed for decision making. The different uses of Gen AI now show a fraction of its potential to transform the BFSI sector.

Credit penetration in India

Credit penetration is lower in India compared to other countries

In terms of the credit to GDP ratio, India has low credit penetration compared with other developing countries, such as China indicating the potential that can be tapped. Similarly, in terms of credit to households as a proportion of GDP as well, India lags as compared to other markets, with retail credit hovering at around 26% of GDP as of FY23.

Credit to GDP ratio (%) (Q3 CY2023)



Note: Data is represented for calendar years for all countries except India. For India, numbers are for fiscal year

Source: Bank of International Settlements, CRISIL MI&A

Chandigarh, Delhi, Maharashtra, and Telangana, have a higher banking credit penetration compared to other states

Delhi, Maharashtra, Telangana, and Chandigarh have a banking credit to GDP ratio of more than 100% as of March 2023 which indicates that banking credit penetration in the state is higher as compared to other states in the country. Chandigarh has the highest banking credit penetration of 257% as of March 2023 followed by Delhi at 235%. Maharashtra has the third highest banking credit penetration in Indian States at 164%. Sikkim, Tripura, Himachal Pradesh had the lowest banking credit penetration among all states in fiscal 2023.

Banking credit penetration across states in India as of FY23

State/Union Territory	State GSDP (Constant Price) (Rs in billion)	Banking Credit Penetration	Rural Banking Credit Share	Semi-urban Banking Credit Share	Urban Banking Credit Share	Metropolitan Banking Credit Share
Chandigarh*	302.9	257%	0%	0%	99%	-
Delhi	6,526.5	235%	0%	1%	3%	95%
Maharashtra*	20,279.7	164%	2%	5%	5%	88%
Telangana	7,267.1	107%	9%	11%	8%	72%
Tamil Nadu	14,533.2	91%	11%	23%	14%	51%
Kerala*	5,727.5	85%	4%	50%	46%	-
Andhra Pradesh	7,543.4	85%	18%	25%	30%	28%
Karnataka	13,263.2	77%	11%	11%	16%	62%
Haryana	6,084.2	75%	10%	14%	68%	8%
Jammu & Kashmir-UT	1,347.2	68%	34%	28%	21%	18%
Punjab	4,615.4	68%	19%	28%	26%	27%
Puducherry*	278.3	66%	12%	20%	69%	-
Rajasthan	7,994.5	64%	16%	23%	25%	37%
Madhya Pradesh	6,431.2	64%	13%	22%	18%	46%
West Bengal	8,540.2	63%	14%	9%	20%	57%
Others	2,774.0	45%	25%	28%	40%	41%

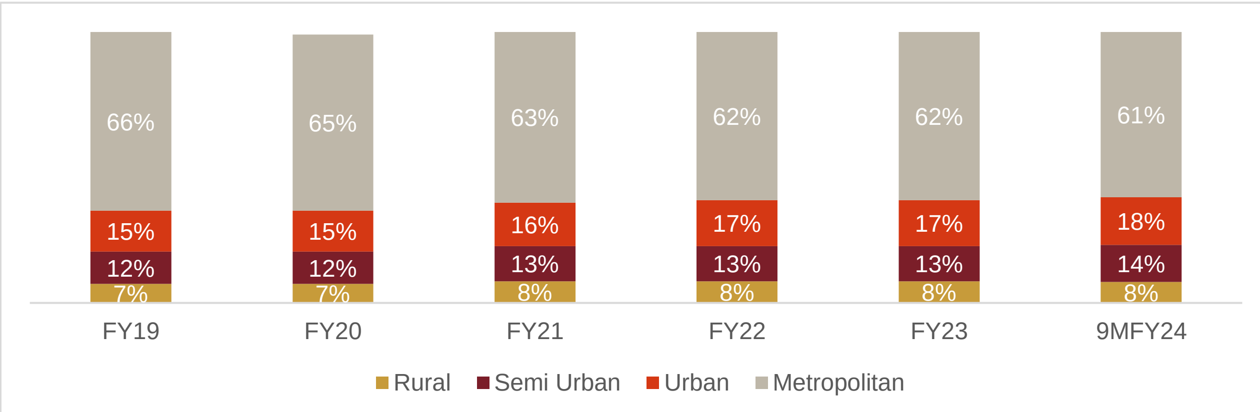
*Note: Credit penetration calculated as banking credit to states as of Fiscal 2023 divided by state GSDP (at constant prices) as of Fiscal 2023; GDP taken as GSDP at constant prices, Base Year: 2011-12., * GSDP taken for Fiscal 2022; Tier-wise share is taken as outstanding in the tier divided by total outstanding in the state; Source: RBI, MOSPI, CRISIL MI&A*

Rural and semi-urban India – Under penetration and untapped market presents a huge opportunity for growth of financiers

Bank credit to metropolitan areas has decreased over the past few years with its share decreasing from 66% as of March 31, 2019, to 61% as of September 30, 2023. Between the same period, credit share has witnessed a marginal rise in rural (7% in FY19 to 8% in H1FY24) and semi-urban areas (12% in FY19 to

14% in H1FY24). As of March 31, 2023, rural areas, which accounts for almost 47% of GDP, received just 8% of the overall banking credit, which shows the vast market opportunity for banks and NBFCs to lend in these areas. With increasing focus of government towards financial inclusion, rising financial awareness, increasing smartphone and internet penetration, CRISIL MI&A expects delivery of credit services in rural area to increase. Further, usage of alternative data to underwrite customers will also help the financiers to assess customers and cater to the informal sections of the society in these regions.

Share of rural & semi-urban regions in banking credit increased between FY19 & 9M FY24



Note: As at the end of each Fiscal and as of December 2023 (9MFY24); Source: RBI, MOSPI, CRISIL MI&A

Rural economy is becoming structurally far more resilient

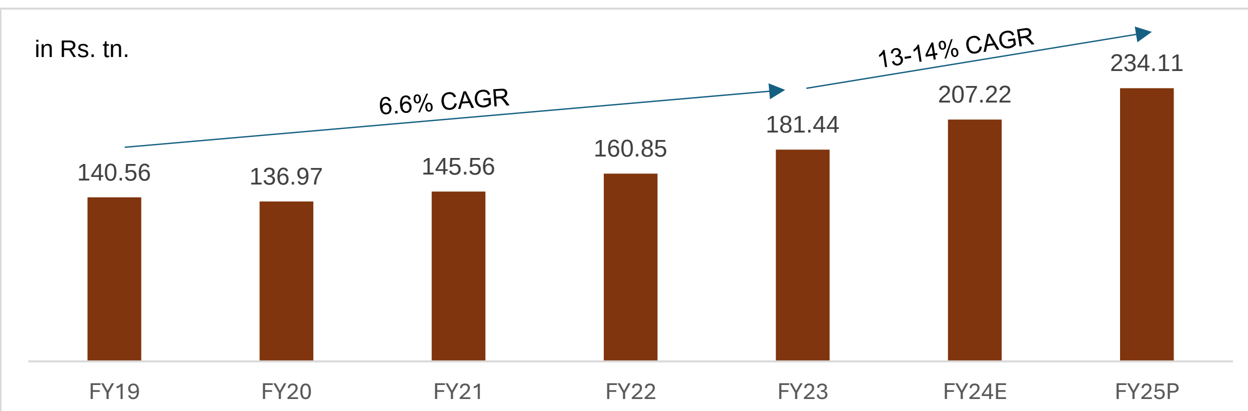
According to Census 2011, there are about 640,000 villages in India, which are inhabited by about 893 million people, comprising about 65% of the country's population as of CY2021. The rural economy is far more resilient today due to increased spends under MNREGA and irrigation programmes, direct benefit transfer (DBT), the PM-Kisan scheme, PM Ujwala Yojana for cooking gas, PM Awas Yojana for housing, and Ayushman Bharat scheme for healthcare. To supplement this, there has been a continuous improvement in rural infrastructure such as electricity and roads. These government initiatives have led to lesser leakages and higher incomes in the hands of the rural populace, thereby enhancing their ability and willingness to spend on discretionary products and services. The structural changes, combined with a positive macro environment, will improve rural business prospects, provide business opportunities for the banking and financial services sector, and drive the long-term growth of the economy.

Overview and Market Landscape of NBFCs in India

Systemic credit to grow at 13-14% CAGR between FY23-FY25

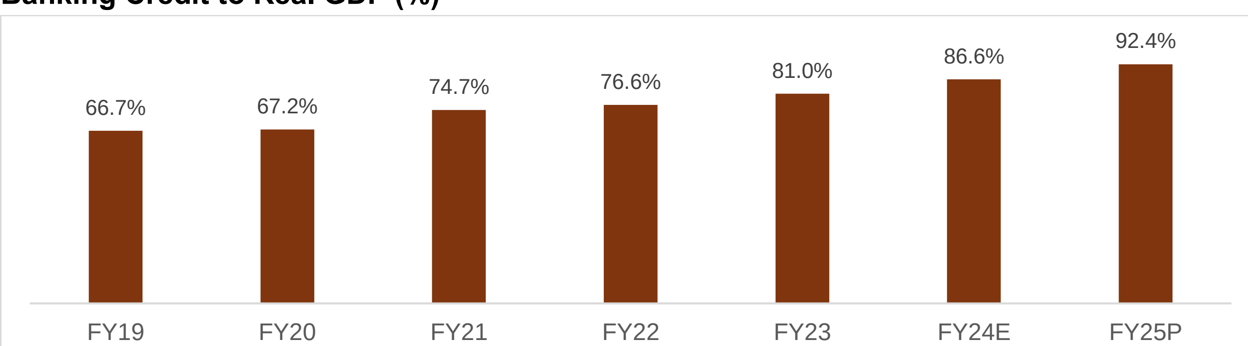
Corporate credit determines the growth in overall credit as it accounts for nearly two-third of systemic credit. The slowdown in economic activity, coupled with heightened risk aversion among lenders, tightened the overall credit growth to approximately ~6.3% in FY21. In FY22, the systemic credit growth picked up steam despite the second wave of COVID-19 hurting economic growth in the first quarter of the fiscal. The retail credit has been a strong driving force behind the growth in overall credit. Retail credit witnessed a growth of 10% year on year during FY21 and 14% during FY22, while non-retail credit grew at a slower pace of 3% and 9% during FY21 and FY22. The systemic credit grew at 10.3% in FY22 to reach approximately Rs. 161 trillion. The growth was mainly driven by the budgetary push towards investments, pick-up in private investment, and business activities. In FY23, Systemic credit showed strong growth on back of pent-up retail demand from sectors like housing and vehicle and strong credit demand from NBFCs and trade segment. CRISIL MI&A projects systemic credit to grow at 13-14% CAGR between FY23 and FY25.

Systemic credit to grow by 13-14% between FY23 and FY25



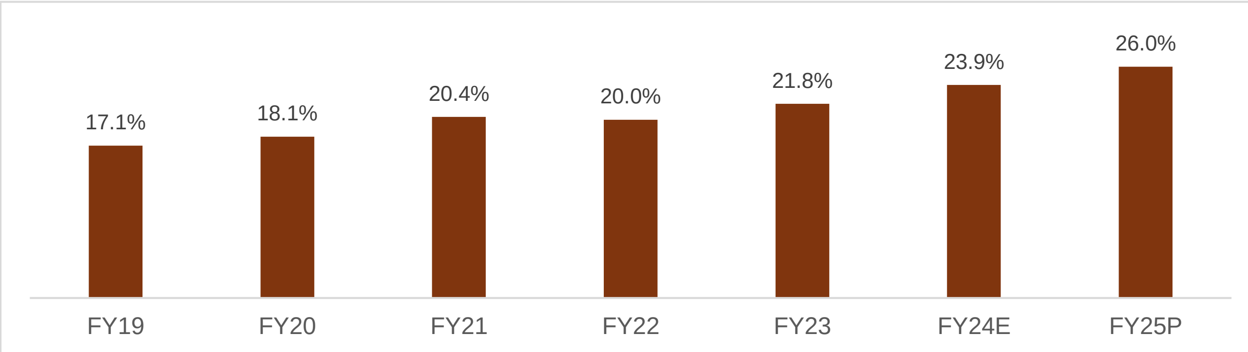
Note: P: Projected; Systemic credit includes domestic banking credit (after deduction of bank lending to NBFC), NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC; Source: RBI, Company reports, CRISIL MI&A

Banking Credit to Real GDP (%)



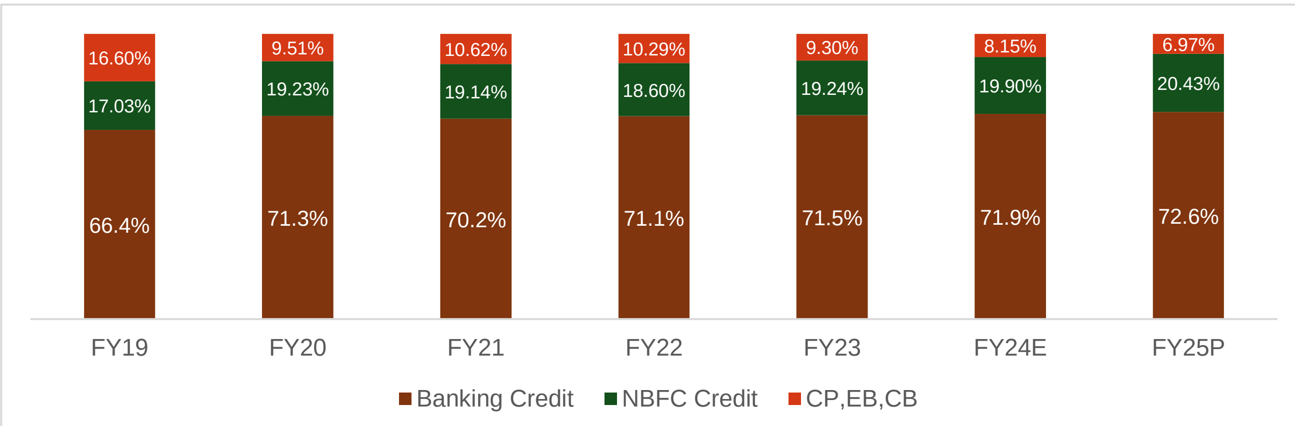
Source: RBI, Crisil MI&A

NBFC Credit to Real GDP (%)



Source: Crisil MI&A estimates

Share of NBFC credit in overall systemic credit to reach 20% in FY25

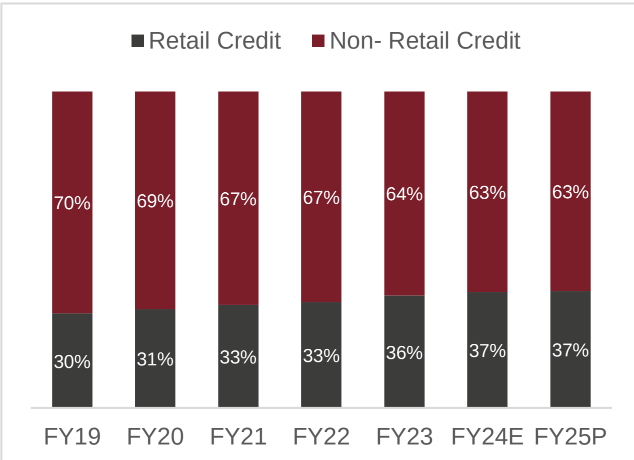


Note: P: Projected; Systemic credit includes domestic banking credit, NBFC credit, commercial papers, external borrowings, corporate bonds excluding those issued by Banks and NBFC; Source: RBI, Company Reports, CRISIL MI&A

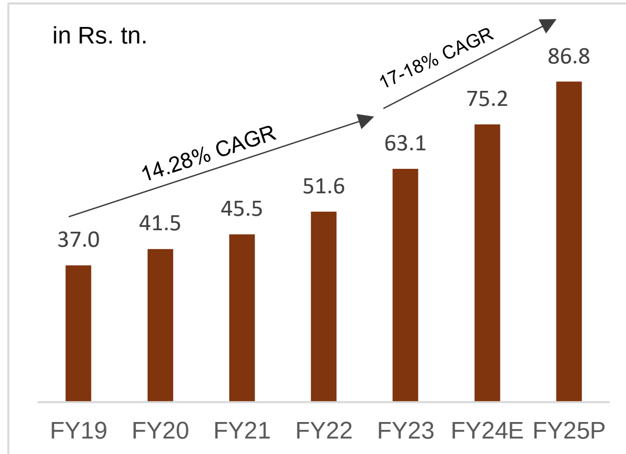
The retail credit (includes Housing finance, Vehicle Financing, Gold Loans, Education Loans, Consumer Durables, Personal loans, Credit cards and Microfinance) in India stood at Rs. 63 trillion, as of FY23 which rapidly grew at a CAGR of 14.3% between FY19 and FY23. Retail credit growth in FY20 was around approximately 12.1% which came down to approximately 9.6% in FY21.

However, post-pandemic, retail credit growth revived back to reach approximately 13.5% in FY22. In FY23, retail credit has grown at ~22.3% year on year basis. The Indian retail credit market has grown at a strong pace over the last few years and is expected to further grow at a CAGR of 17-18% between FY23 and FY25 to reach Rs. 87 trillion by FY25. The moderation of growth of retail credit is on account of normalisation in unsecured segment which had witnessed exuberant growth in the past and impact of RBI's risk weight circular.

Retail segment to account for 37% of overall systemic credit by FY25

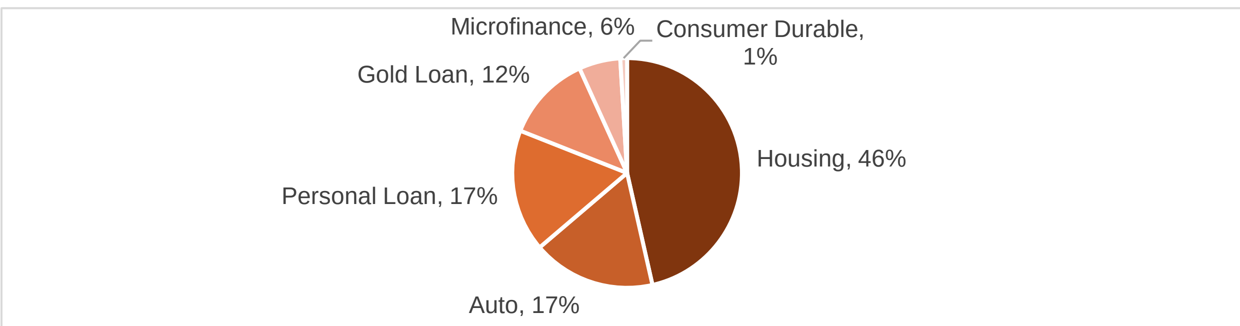


Retail credit growth to continue a strong footing in FY24 and FY25



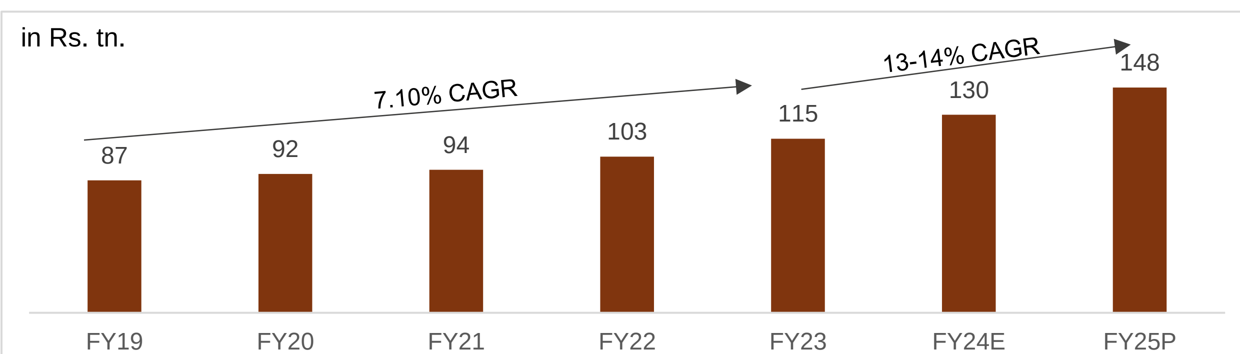
Note: P = Projected, Source: RBI, CRISIL MI&A

Retail credit mix as of FY23



Source: CRISIL MI&A

Systemic non-retail credit expected to grow at 13-14% CAGR between FY23 and FY25



Note: P = Projected; Source: RBI, CRISIL MI&A

NBFC Credit to grow faster than systemic credit

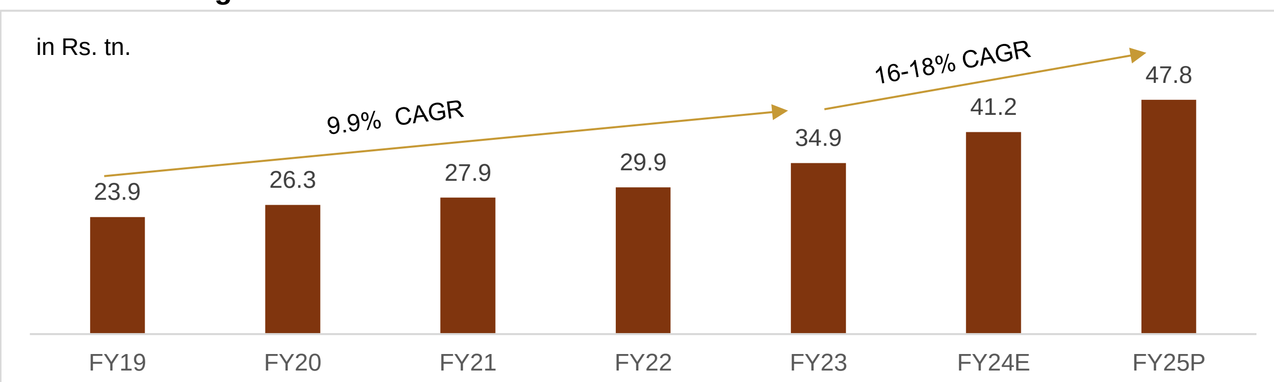
Over the past decade, banking credit growth lagged systemic credit growth for several years as NBFCs grew at a much faster pace. NBFCs clocked 15% CAGR in credit, between fiscals 2016 and 2018, mainly due to aggressive expansion of their footprint and entry of numerous new players across India. This also coincided with a decline in bank credit growth.

However, the NBFC sector faced headwinds after the IL&FS default in September 2018, followed by a liquidity crisis. Later, funding challenges and the Covid-19 pandemic added to the pressures, curbing growth. Banks benefitted in this milieu and used their surplus liquidity to gain market share in terms of credit in a few key segments.

During fiscals 2019 to 2024, NBFC credit is estimated to have witnessed a growth at CAGR ~11%, while NBFC retail credit is estimated to have grown at ~14% CAGR over the same time-period. NBFCs have shown remarkable resilience and gained importance in the financial sector ecosystem, growing from less than Rs 2 trillion AUM at the turn of the century to Rs. 41 trillion at the end of Fiscal 2024.

Going forward, CRISIL MI&A expects NBFC credit to grow at 16-18% in Fiscal 2025, along with rapid revival in the economy. Further growth of the NBFC industry will be driven mainly by large players with strong parentage who have a funding advantage and capability to invest and expand into newer geographies.

NBFC credit to grow at CAGR 16-18% between FY23 and FY25



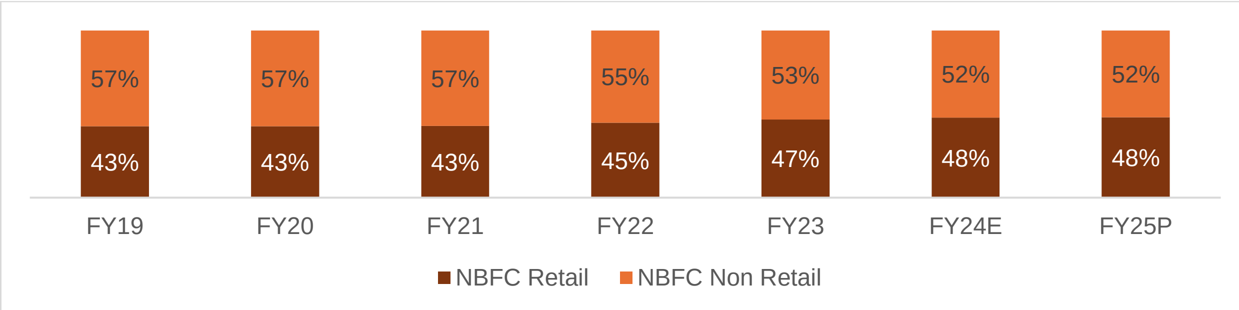
Note: P = Projected; Source: RBI, Company reports, CRISIL MI&A, note: HDFC is not considered while calculating overall NBFC Credit

CRISIL MI&A believes that NBFCs will remain a force to reckon within the Indian credit landscape, given their inherent strength of providing last-mile funding and catering to customer segments that are less in focus by the Banks.

NBFCs play a vital role in financial inclusion in India

Financing needs in India have risen in sync with the notable economic growth over the past decade. NBFCs have played a major role in meeting this need, complementing banks and other financial institutions. NBFCs help fill gaps in the availability of financial services with respect to products as well as customer and geographic segments. A strong linkage at the grassroots level makes them a critical cog in the financial machine. They cater to the unbanked and underbanked masses in rural and semi-urban India and lend to the informal sector and people without credit histories, thereby enabling the government and regulators to realize the mission of financial inclusion.

Share of retail credit in total NBFC credit to grow to 48% by end of FY24 and expected to remain stable in FY25



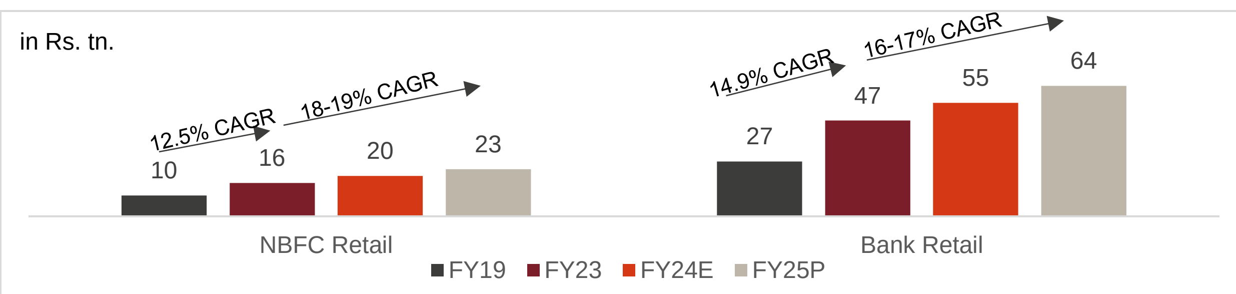
Note: P = Projected; Retail credit includes housing finance, vehicle finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans; Source: Company reports, CRISIL MI&A

Retail segment to support NBFCs overall credit growth

The NBFC sector has, over the years, evolved considerably in terms of size, operations, technological sophistication, and entry into newer areas of financial services and products. The number of NBFCs as well as the size of the sector have grown significantly, with a number of players with heterogeneous business models starting operations. Overall NBFC credit during FY19 to FY23, witnessed a CAGR of ~10% which was majorly led by retail segment which accounts for ~47% of overall NBFC credit and witnessed a CAGR of ~13%, while NBFC non-retail credit witnessed a growth of ~8% during the fiscals.

Going forward, growth in the NBFC retail segment is expected at 18-19% CAGR between FY23-FY25 which will support overall NBFC credit growth, with continued focus on the retail segment and multiple players announcing plans to reduce wholesale exposure, the retail segment's market share is expected to rise further to 48% (vs the wholesale's 52%) by end of FY24 and remain stable in FY25.

Growth in retail credit for banks and NBFCs

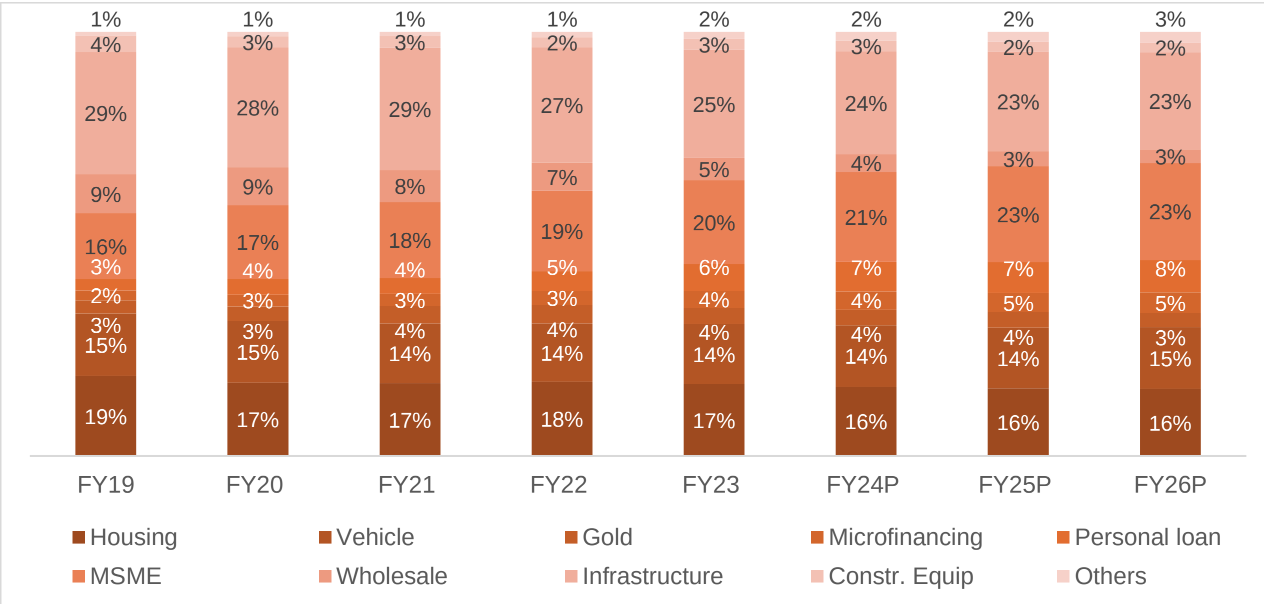


Note: P = Projected; Retail credit above includes housing finance, vehicle finance, microfinance, gold loans, construction equipment finance, consumer durable finance, MSME loans and education loans; Source: Company reports, RBI, CRISIL MI&A

Housing finance accounts for third highest share in overall NBFC credit as of FY23

As of FY23 infrastructure financing accounts for the highest share in NBFC credit (25%), which was followed by MSME loans which account for 20% share of overall NBFC credit. Housing finance accounted for third highest share in overall NBFC credit outstanding with 17% share in overall NBFC credit.

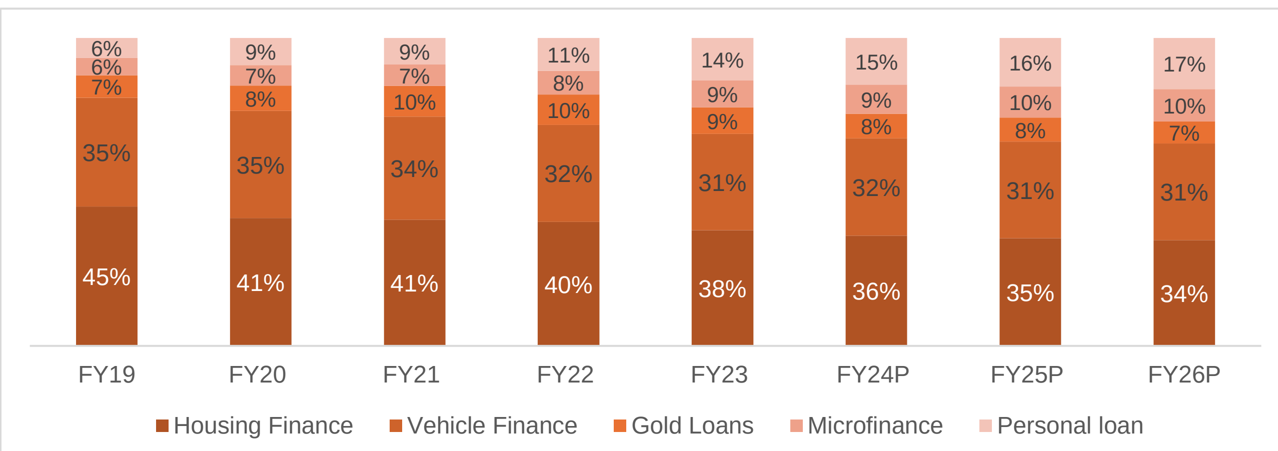
Distribution of NBFC Credit across asset classes



Note: Others include education loan and consumer durable loans, Infrastructure includes PFC & REC

Source: Company reports, CRISIL MI&A

Housing finance accounted for the highest share in NBFC retail credit



Source: Company reports, CRISIL MI&A

Housing finance accounted for the highest share in NBFC retail credit across fiscals accounting for 38% as of FY23, witnessing a fall in share from 45% in FY19. This was followed by vehicle financing and personal loans with 32% and 15% share in FY23 respectively. Top 3 asset classes accounted for ~83% of total NBFC retail credit.

Housing finance has the lowest GNPAs and second lowest credit costs across asset

classes for NBFCs

Across asset classes, housing finance is one of the safest asset classes with lowest GNPA (%) across segments at 1.6% for FY23, and second lowest credit costs after gold loans (0.1%) at 0.5% for FY23. While MFI loans had the highest interest income across asset classes and return on assets was highest in gold loans at 4.7% for FY23.

ROA Tree for NBFCs across asset classes

Asset Class	Financial Metric	FY22	FY23	FY24E and FY25P
Housing Loans	Interest income to average assets	8.7%	9.2%	9.5-9.7%
	Interest expense to average assets	5.7%	5.9%	6.2-6.4%
	Credit Cost	0.6%	0.5%	0.3-0.5%
	Opex	0.9%	0.9%	0.8-1.0%
	ROA	1.5%	1.9%	1.9-2.1%
	GNPA	2.1%	1.6%	1.1-1.2%
MSME Loans	Interest income to average assets	14.5%	15.5%	15.5-16%
	Interest expense to average assets	5.6%	5.7%	5.8-6.2%
	Credit Cost	1.2%	1.3%	1.3-1.5%
	Opex	4.2%	3.6%	3.4-3.6%
	ROA	3.3%	3.7%	3.6-3.9%
	GNPA	3.1%	2.6%	2.4-2.7%
Auto Loans	Interest income to average assets	12.0%	12.4%	13.2-13.4%
	Interest expense to average assets	6.0%	5.8%	6.9-7.1%
	Credit Cost	2.5%	1.8%	1.6-1.8%
	Opex	1.6%	2.5%	2.0-2.2%
	ROA	1.9%	2.3%	2.4-2.6%
	GNPA	6.6%	5.0%	4-4.5%
Gold Loans	Interest income to average assets	16.4%	14.9%	15-17%
	Interest expense to average assets	5.6%	5.2%	5.1-5.3%
	Credit Cost	0.1%	0.1%	0.2-0.3%
	Opex	5.1%	4.9%	4.9-5.1%
	ROA	5.6%	4.7%	5.4-5.6%
	GNPA	2.8%	3.0%	2.5-2.7%
Affordable Housing Loans	Interest income to average assets	9.9%	10.3%	10.8-11.0%
	Interest expense to average assets	5.4%	5.4%	5.8-6.0%
	Credit Cost	0.7%	0.4%	0.2-0.4%
	Opex	1.5%	1.7%	1.7-1.9%
	ROA	2.3%	2.8%	2.8-3.0%
	GNPA	3.0%	2.0%	1.5-1.7%
MFI Loans	Interest income to average assets	15.8%	17.3%	17.8-18%

	Interest expense to average assets	7.1%	7.2%	7.4-7.6%
	Credit Cost	2.9%	2.4%	1.7-1.9%
	Opex	4.6%	4.8%	4.4-4.6%
	ROA	1.2%	2.9%	4-4.2%
	GNPA	6.0%	2.9%	1.8-2%

Source: CRISIL MI&A, Company Documents, Note: Ratios on average total assets

Housing Scenario in India

The Housing sector is regarded as the engine of economic growth and can give a big push to the economy through its forward and backward linkages with more than 250 ancillary industries. The sector's strong inter-industry linkages and investments can have multiplier effects on generation of income and employment in the country. Recognising the importance of housing as a basic human need, the government has announced multiple schemes to continue their focus on housing in the country.

Indian household investment in Real estate

In a country like India,real estate is one of the largest investments for a majority of people in their lifetime and holds significant importance. As a consequence of India's large population, having a decent house is a dream many spend their lives trying to fulfil. As per the household finance committee report issued by the RBI in 2017, the average Indian household holds 77% of its total asset in real estate which includes residential buildings, buildings used for farm and non-farm activities, constructions such as recreational facilities, and rural and urban land.

As per 2011 census, India has ~331 million houses of which only 130 million houses were in good habitable condition

As per 2011 census, India has 330.84 million houses of which 244.64 million houses were used for residence purpose or residence-cum-other use purpose. Further, 130.12 million houses amongst the occupied ones were classfied as 'good habitable condition', followed by 101.44 million (41.46%) as 'liveable habitable condition' and remaining as 'dilapidated habitable condition'.

Average Household size as per 2011 census stood at 4.9 persons per household (in millions)

As per 2011 census, total number of households in India stood at 246.69 million, with rural and urban regions accounting for 68% and 32% share respectively. The average household size in India stood at 4.9 persons per household. Average household size in rural and urban regions stood at 4.9 and 4.8 persons respectively.

Average Household size in urban regions stood at 4.8 persons per household and 4.9 persons per household in rural regions

Characteristics	Total	Rural	Urban
Total Population	1210.1	833.0	377.1
Total Households	246.6	167.8	78.8
Average Household size	4.9	4.9	4.8

Source: Census 2011, State of Housing in India 2013, CRISIL MI&A

As per 2011 census, out of total households (246.69mn.) in India, 4% have no exclusive rooms, 37% have only one room, 32% have two rooms, 14% have three rooms and 13% have four rooms and above. One room household dominate the share of overall households in both rural and urban regions.

Households by number of dwelling rooms (in millions)

Area	Number of Households	Distribution of Households having number of dwelling rooms				
		No Exclusive Room	One Room	Two Rooms	Three Rooms	Four Rooms & Above
Rural	167.83	7.21	66.15	53.99	21.31	19.16
Urban	78.86	2.43	25.34	24.14	14.49	12.47
India	246.69	9.64	91.49	78.13	35.8	31.63

Source: Census 2011, State of Housing in India 2013, CRISIL MI&A

Housing shortage in India (in millions)

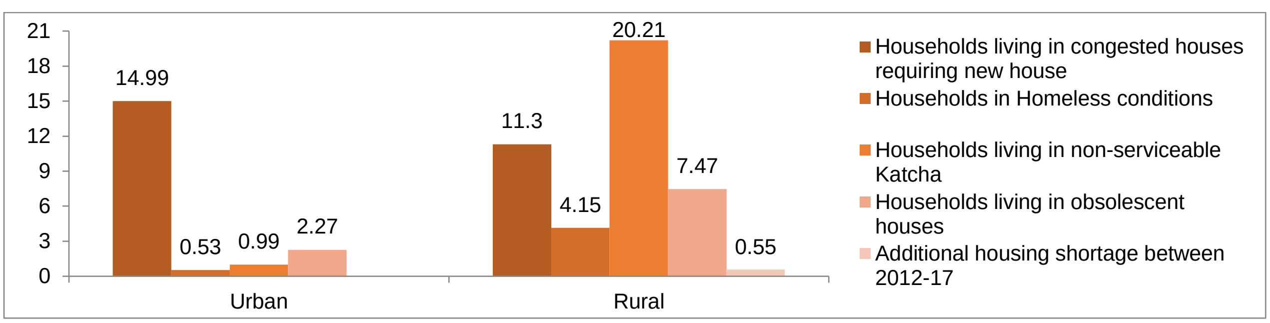
Area	Total Number of Census Homes	Occupied Census House	Distribution of Occupied Census Houses			
			Residence	Residence cum other use	Total of Residence and Residence cum other use	All other Non-Residential Use
Rural	220.70	207.12	159.93	6.23	166.16	40.96
Urban	110.14	99.04	76.13	2.35	78.48	20.56
Total	330.84	306.16	236.06	8.58	244.64	61.52

**Other non- residential use – Shop, Office, School, College, Hotel, lodge, guest house, hospital dispensary, Factory, workshop, work shed, place of worship, etc; Source: Census 2011, Ministry of Housing and Urban Poverty Alleviation National Buildings Organisation; Planning Commission, CRISIL MI&A*

Housing shortage in India

Despite the constant focus on the housing segment, housing in India is far from adequate. The shortage of overall houses (rural & urban regions) is at a very high level at 62.5 million houses (as per twelfth five-year plan 2012-17) due to changing social and demographic pattern in India such as nuclearization of families and rapid growth of urbanisation.

Housing shortage split between urban-rural (2012) – (in million)



Source: 2012 Estimates, Ministry of Rural development, Planning commission, CRISIL MI&A

In its Twelfth Five Year Plan (2012-2017), the Government accorded this issue utmost importance and focused on increasing the amount of housing units available both in the urban as well as the rural sector. As per the estimates of the Twelfth Five Year Plan, the shortage of housing in the urban segment of the society stood at 18.78 million. The economically weaker section (EWS) accounts for ~56% of the shortage. Lower Income Group (LIG) approximately accounts for ~39% of housing shortage in urban regions.

Urban Housing shortage split among Socio-Economic Group (2012) – million

Category	Urban Housing Shortage	(in %)
EWS	10.55	56.2%
LIG	7.41	39.5%
MIG & HIG	0.82	4.3%
Total	18.78	100%

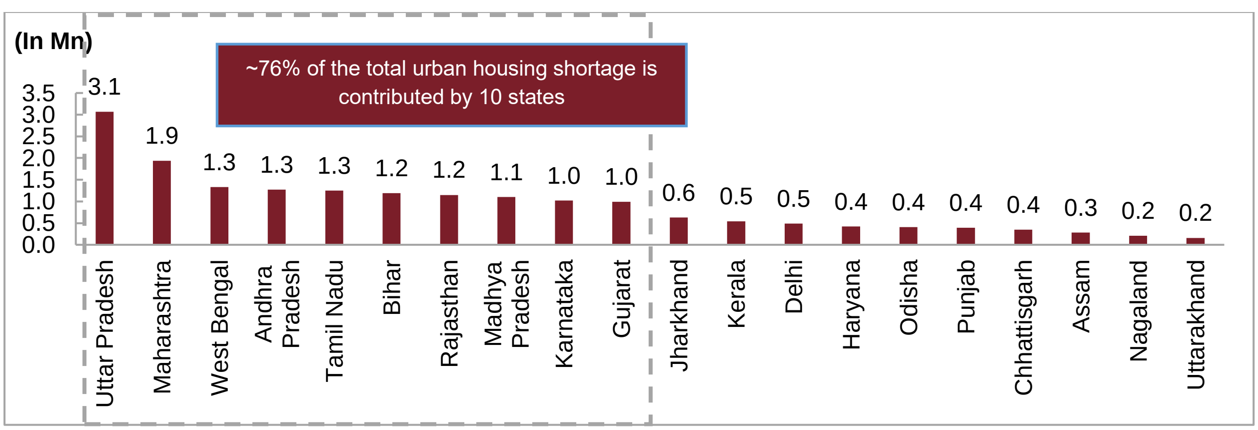
Note: 2012 Estimates; Source: Ministry of Rural development, Ministry of Housing and Urban Poverty Alleviation National Buildings Organisation; Planning Commission, CRISIL MI&A

The erstwhile Planning Commission and Ministry of Rural Development, Government of India, has taken official initiative to assess the quantum of housing shortage in rural India. As per the estimates of the Twelfth Five Year Plan, in 2012 the shortage of housing in the rural segment of society stood at 43.13 million.

76% of total urban housing shortage is contributed by top 10 states (2012)

As per the estimates of the Twelfth Five Year Plan, 10 states accounted for ~76% of the urban housing shortage. Uttar Pradesh has a housing shortage of over 3 million, followed by Maharashtra (1.94 million), West Bengal (1.33 million), Andhra Pradesh (1.27 million) and Tamil Nadu (1.25 million).

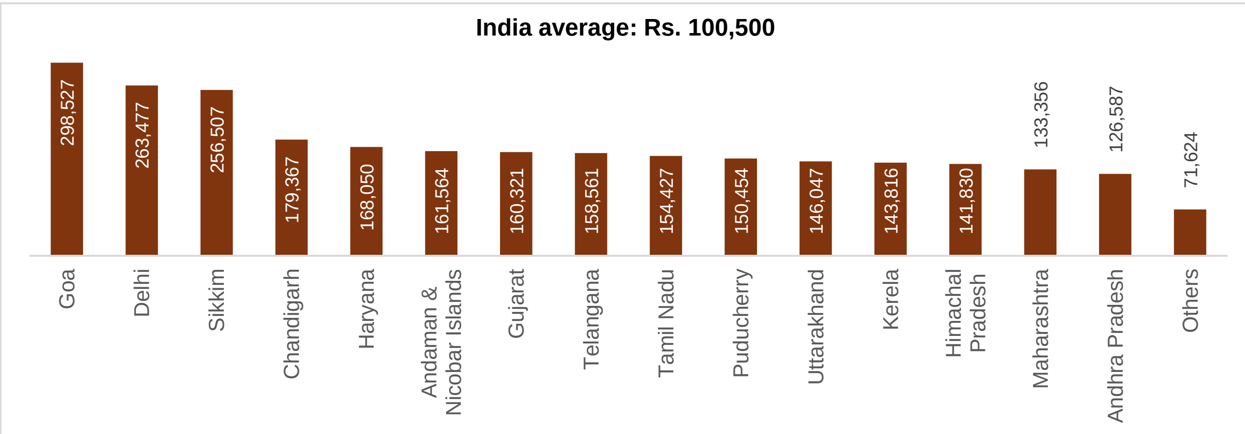
State-wise housing shortage



Source: Report of the Technical Urban Group on Urban Housing Shortage (TG-12), CRISIL MI&A

Amongst the top states with high shortage of homes, some states such as Uttar Pradesh, Bihar, West Bengal, Rajasthan & Madhya Pradesh have a lower per capita income, as compared to the national average. This shows that there is significant headroom for growth in terms of increasing per capita income and reducing the housing shortage in the country.

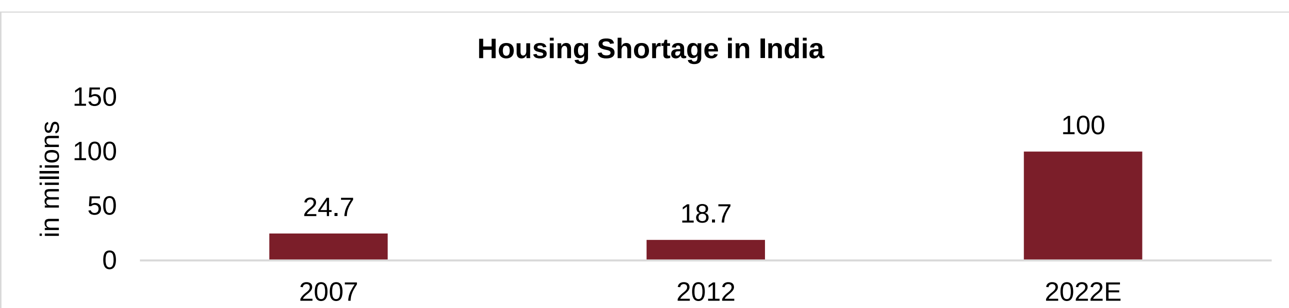
45% of the India's States have a lower per capita income than national average (fiscal 2023)



Source: RBI CRISIL MI&A

Estimated shortage and requirement of ~100 million houses in 2022

The housing shortage in India has only increased since the estimates at the time of the Twelfth Five-year plan. As per the report of RBI-appointed Committee on the Development of housing finance securitisation market (September 2019), the housing shortage in India was estimated to increase to 100 million units by 2022. Majority of the household shortage is for Lower income group (LIG) and Economic weaker section (EWS) with a small proportion (5-7%) of the shortage coming from middle income group or above. Total incremental housing loans demand, if this entire shortage is to be addressed, is estimated to be in the region of Rs 50 trillion to Rs 60 trillion, as per the Committee report. In comparison, the overall housing loans outstanding (excluding PMAY loans) as of March 2023 is around Rs 28.7 trillion. This indicates the immense latent potential of the market; in case a concrete action is taken for addressing the shortage of houses in the country.

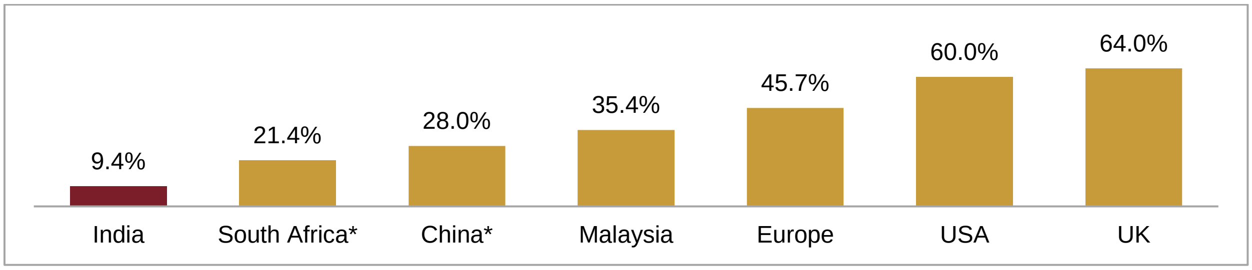


Note: E: Estimated; Source: RBI, Planning Commission, CRISIL MI&A

India's mortgage penetration is lower than other economies

India has very low penetration in terms of housing finance as compared to its rising peers which shows a high potential for expansion of Indian housing finance companies. The Housing finance market continues to face supply constraints from Banks and NBFCs, particularly for the lower income.

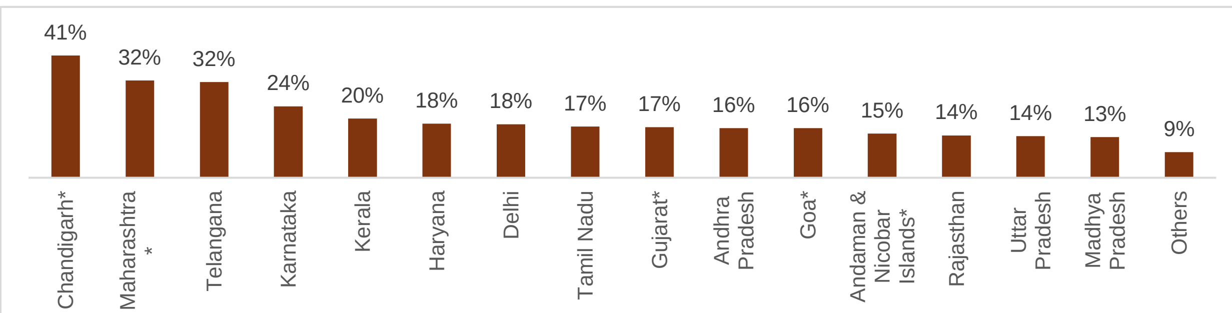
Mortgage-to-GDP ratio in India (FY23) compared with other countries (CY18)



Note: (*) – As of CY17, Indian mortgage to GDP is for Fiscal 2023 – 12.3%; Europe 28 includes the 28 European Union Member states as of December 2018; Source: HOFINET, European Mortgage Federation, NHB, CRISIL MI&A

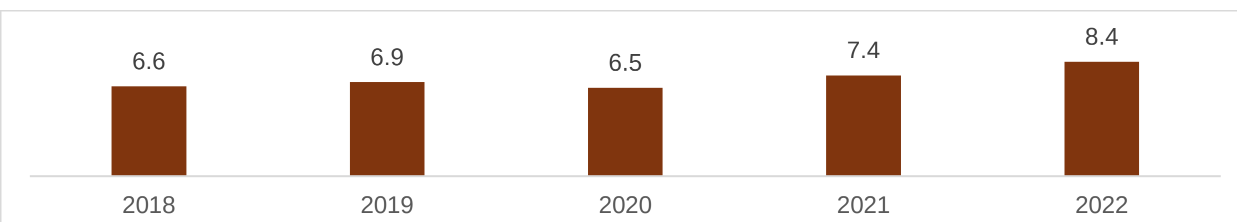
State-wise mortgage penetration in India

The mortgage-to-GDP ratio varies widely based on home loan market size, ranges between ~4% and ~42% in fiscal 2023. Chandigarh has the highest housing loan penetration with ~41% of GDP followed by Maharashtra (~32%) and Telangana (~32%) at second and third position respectively in fiscal 2023.



*Note: Housing loan penetration calculated as Housing loan outstanding over state GSDP (at constant prices) as of Fiscal 2023; GDP taken as GSDP at constant prices, Base Year: 2011-12., * GDSP taken for Fiscal 2022, Source: CIBIL, RBI, MOSPI, CRISIL MI&A*

India GDP per capita in PPP (in '000 USD) has increased to 8.4 in 2022 from 6.6 in 2018

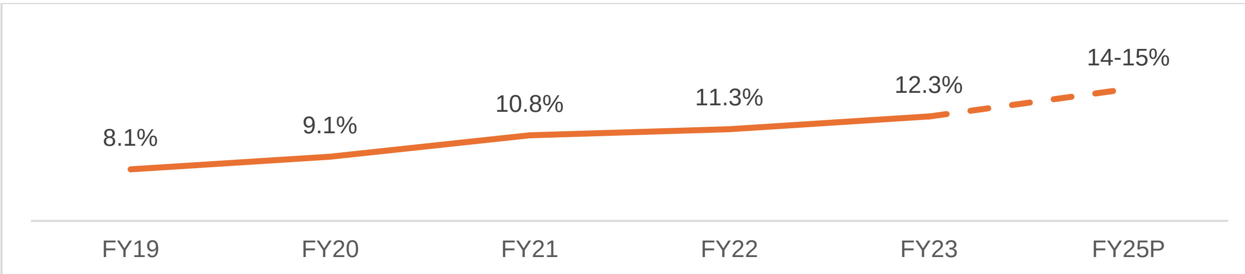


Source: World Bank, CRISIL MI&A

Mortgage-to-GDP ratio in India to grow to 14-15% by fiscal 2025

In fiscal 2023, India's mortgage-to-GDP ratio stood at 12.3%. Though low compared with other developing countries, it has significantly improved from 6.5% in fiscal 2009. The factors that contributed to the improvement are rising incomes, improving affordability, growing urbanisation and nuclearization of families, emergence of tier-II and tier-III cities, ease of financing, tax incentives, and widening reach of financiers. Given the expected steady growth from fiscal 2023, CRISIL MI&A projects the ratio at 14-15% by fiscal 2025.

Trend in mortgage-to-GDP ratio in India



Note: P – Projected, Data for mortgage to GDP for India includes both Housing loans outstanding over constant GDP for India; Source – NHB, World Bank, CRISIL MI&A

Factors affecting mortgage-to-GDP ratio in India

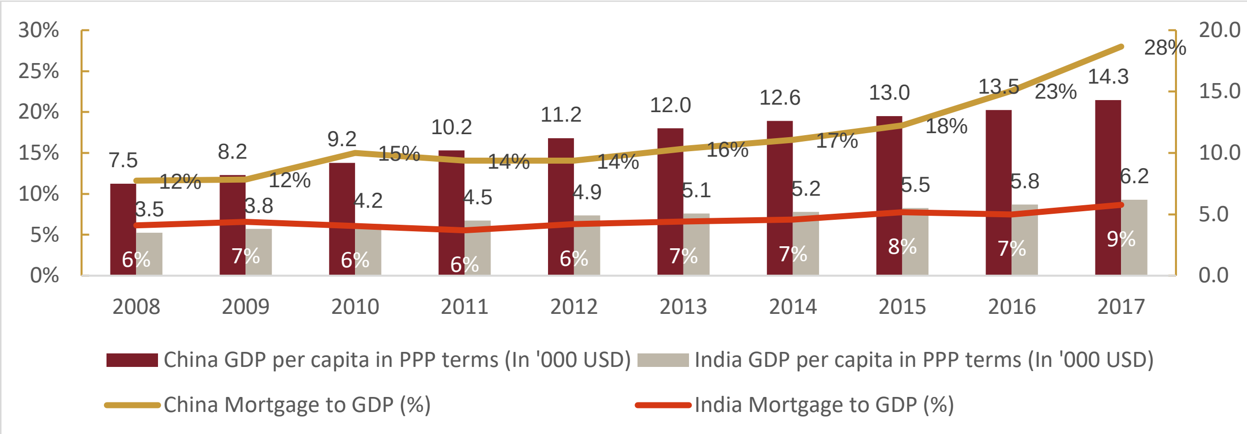
Mortgage penetration in India is far lower than other emerging economies (South Africa, China, Malaysia etc.) owing to lower per capita income and higher proportion of informal employment in the country. However, CRISIL MI&A believes rising urbanisation, growing disposable income, favourable demographics and government measures will lead to higher mortgage penetration going forward.

1- Higher affordability led by increase in disposable income	1- Low per capita GDP
2- Rapid growth in urbansisation	2- Relatively high house prices
3- Higher proportion of young population	3- High percentage of population in informal employment
4- Government measures to push housing sector such as "Housing for all", impetus packages to tackle the pandemic, NHB Refinance scheme, SARFAESI Act, etc.	4- Information asymmetry in smaller cities
5 - Formalization of credit	5- Insufficient long-term capital
	6- Inadequate legal infrastructure

Source: CRISIL MI&A

Rise in per capita income to drive the growth of mortgage penetration in India

The mortgage penetration in China is correlated to the GDP per capita of the country and the mortgage to GDP ratio of China has grown from 12% in 2008 to 28% in 2017. The per capita income of the country has increased from USD 7,500 in 2008 to USD 14,300 in 2017. India has gone through a similar trajectory with mortgage penetration in the country increasing from 6% in 2008 to 9% in 2017 which is correlated to the increase in per capita income of the country from USD 3,500 in 2008 to USD 6,200 in 2017. India's GDP per capita income stood at USD 8,400 at end of 2022 witnessing significant growth in the past five fiscals.



Source – HOFINET, Peoples Bank of China, World Bank, CRISIL MI&A

Positive customer sentiments, along with rising supply of premium housing projects helped in housing sales revival post pandemic

During fiscals 2021-23, new launches were lower than incremental demand, the overall unsold inventory level continued to decline sequentially. Developers were restricting new launches during Covid year (FY21) and were cautious even during FY22. In post-pandemic environment where hybrid mode of work is established, consumer preferences have pivoted towards larger and bigger configurations in premium housing projects. In sync with this trend, large established developers have also gradually aligned their new launches to premium projects.

Among top residential markets, during FY19 maximum number of new projects were launched in Mumbai Metropolitan Region (MMR) with 71 new projects, followed by Hyderabad with 46 launches and Pune with 31 new launches. In fiscal 2023, the highest number of launches happened in MMR with 73 new launches, followed by Hyderabad with 66 and Bengaluru with 48.

In fiscal 2023, Hyderabad had the highest proportion of unsold inventory to total inventory at 81% followed by MMR at 80%. From fiscal 2019 to 2023, NCR region witnessed the highest fall in unsold to new inventory proportion (32%) followed by Bengaluru (11%). Proportion of unsold inventory increased in Ahmedabad from 47% in fiscal 2019 to 64% fiscal 2023.

Top residential markets witnessed strong momentum in the past few fiscals supported by sustained economic growth and continuation of hybrid working models, growth is expected to continue in FY25 primarily due to necessity for larger living spaces and an enhanced lifestyle, catalysed by the pandemic.

New launches highest in MMR followed by Hyderabad and Pune in FY19

FY19	Bengaluru	Hyderabad	Kolkata	Pune	MMR	NCR	Chennai	Ahmedabad	Kochi	Chandigarh
New Launches	27	46	9	31	71	25	14	5	4	6
Total Inventory	128	160	76	129	344	160	49	32	10	11

Demand	37	21	24	30	48	32	16	17	4	2
Unsold inventory	91	140	52	99	296	128	33	15	6	9
Unsold Inventory as % of total inventory	71%	87%	68%	77%	86%	80%	67%	47%	59%	82%

Source: Company reports, CRISIL MI&A Estimates

New launches highest in MMR followed by Hyderabad and Bengaluru in FY23

FY23	Bengaluru	Hyderabad	Kolkata	Pune	MMR	NCR	Chennai	Ahmedabad	Kochi	Chandigarh
New Launches	48	66	9	38	73	11	12	18	2	5
Total Inventory	115	243	44	117	300	92	39	33	6	26
Demand	46	47	15	37	60	49	15	12	2	2
Unsold inventory	69	196	30	80	240	44	24	21	4	24
Unsold Inventory as % of total inventory	60%	81%	67%	68%	80%	47%	63%	63%	66%	94%

Source: Company reports, CRISIL MI&A Estimates

Highest new launches expected in MMR followed by Hyderabad and Bengaluru in FY25

FY25P	Bengaluru	Hyderabad	Kolkata	Pune	MMR	NCR	Chennai	Ahmedabad	Kochi	Chandigarh
Launches	64	68	12	46	86	48	19	25	4	5
Total Inventory	128	293	36	121	345	62	43	54	8	32
Demand	68	62	16	44	62	52	17	16	2	2
Unsold inventory	60	231	20	77	283	10	26	38	6	31
Unsold Inventory as % of total inventory	47%	79%	55%	64%	82%	16%	61%	70%	75%	94%

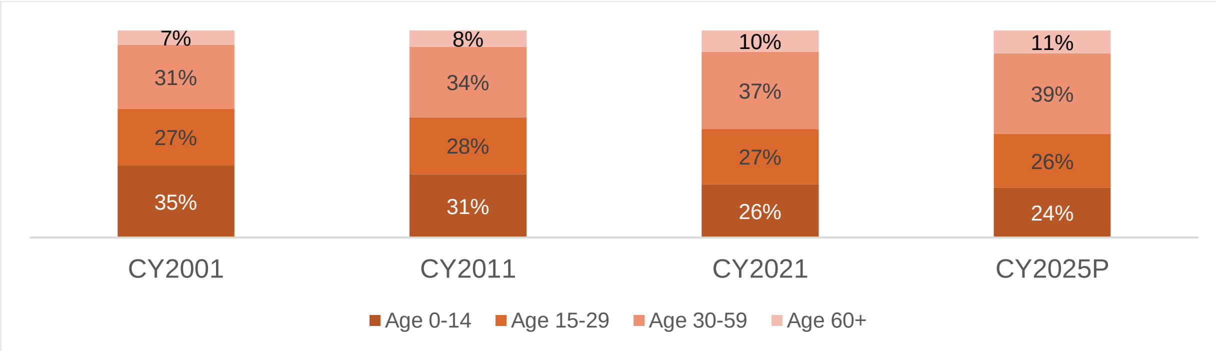
Source: Company reports, CRISIL MI&A Estimates

Favourable Demographic

Shift towards younger age profile for home loan borrowings

As per United Nations DESA estimates, as of July 2023, India has one of the largest young populations in the world, with a median age of 28.2 years. As of CY2021, 64% of India's population was between 15 and 59 years, with 26% of the nation's population under the age of 14. In comparison, in 2020, the United States (US), China and Brazil had 74%, 62% and 78%, respectively, of their population below the age of 60.

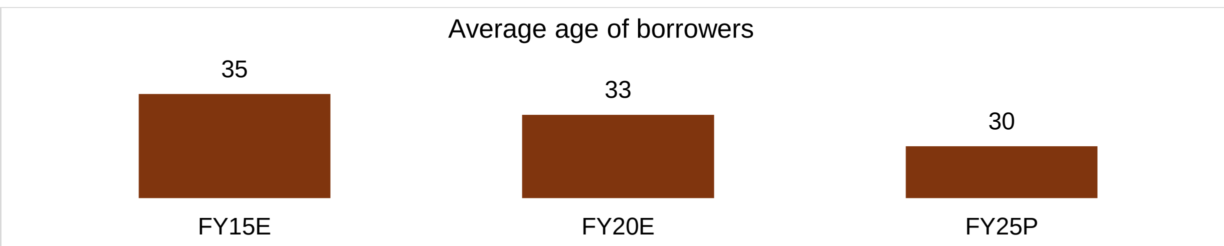
India's demographic dividend



Note: E: Estimated, P: Projected; Source: United Nations Department of Economic and Social affairs, CRISIL MI&A

Average age of borrowers has been declining over the years and was estimated at 33 years in fiscal 2020. We expect this figure to decline further with growth in salaries and people's strengthening preference for accumulating assets, both for investment purpose and tax benefits, coupled with increased access to formal credit India's demographic profile is expected to favour the Housing industry, leading to growth in the Housing Finance market.

Declining age of borrowers

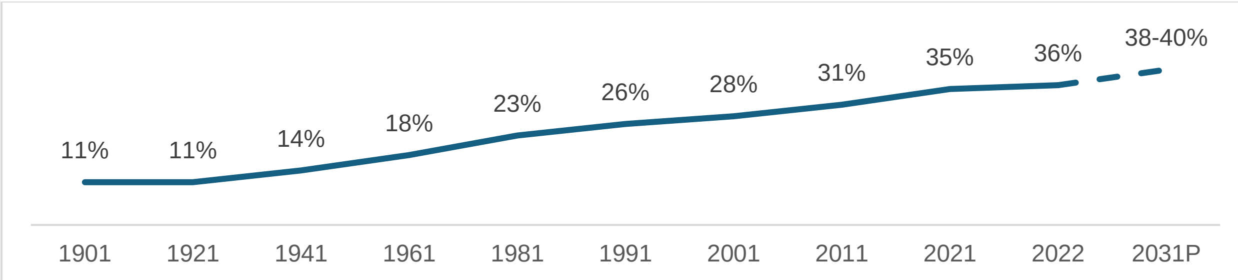


Note: E – Estimated, P – Projected, Source: CRISIL MI&A

Continuous increase in share of urban population to boost demand for housing in urban areas

The share of urban population in relation to the total population has been consistently rising over the years. People from rural areas move to cities for better job opportunities, education, better life, etc. Entire families or only a few people (generally earning member or students) may migrate, while a part of the family continues to hold on to the native house. The urban population of India was at 508 million in 2022, witnessing a CAGR of 2.4% from 2011; rural population was 908 million witnessing a CAGR of 0.46% from 2011, Urbanisation levels rose from 31% in 2011 to 36% in 2022. This percentage is expected to increase further in the years to come, thereby translating into higher demand for housing and related amenities in the urban areas.

Urban population as a percentage of total population

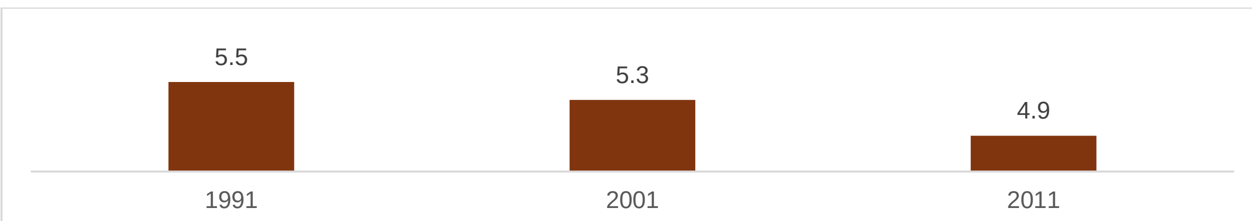


Note: P: Projected; Source: United Nations Population Division's world urbanization prospects, World Bank, CRISIL MI&A

Rise in number of nuclear families leads to formation of new houses

Nuclearization refers to formation of multiple single families out of one large joint family. Each family lives in a separate house, while the ancestral house may be retained or partitioned to buy new houses. Nuclearization in urban areas is primarily driven by changing lifestyle of people, individualism, changing social/cultural attitudes, and increased mobility of labour in search of better employment opportunities. These trends are expected to continue in future.

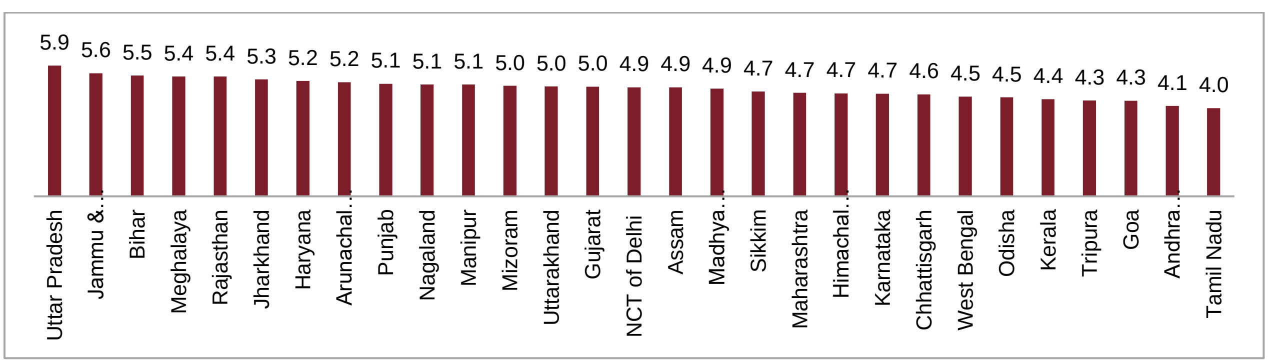
Trend in average household size



Source: Census 2011, CRISIL MI&A

Furthermore, according to the Census 2011, majority of the Indian households live in a one-room or two-room house. According to the NSSO Survey on Housing Conditions conducted in 2012, the average floor area of a dwelling unit was 40.03 sq. m in rural India and 39.20 sq. m in urban India during 2012.

State-wise average household size



Source: NSSO (National Sample Survey Organisation), CRISIL MI&A

Rising demand for independent houses

Indians traditionally prefer to live in independent houses. The Census Data 2011 also clearly shows that Indians prefer independent housing. However, the increase in population density, especially in urban areas, has increased the demand for flats. This is expected to continue to drive the demand for such homes, which are often self-constructed, especially in the smaller cities.

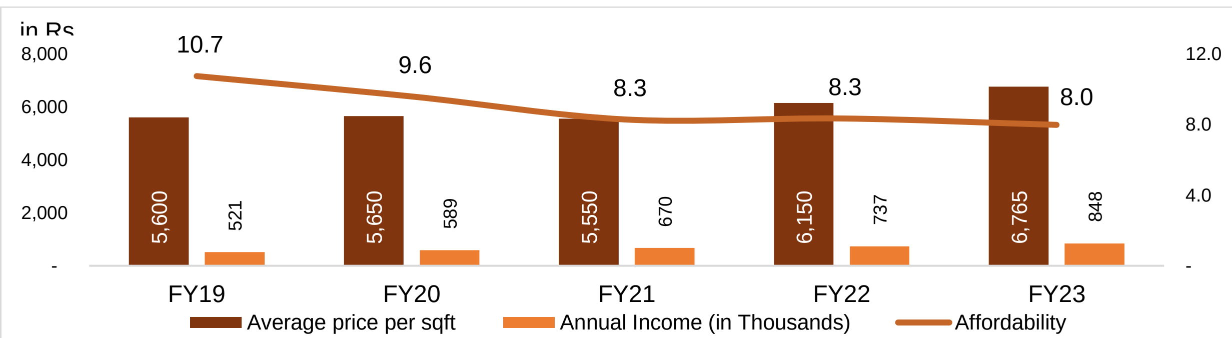
Infrastructure development to boost demand for Real Estate

Government of India has increased its focus towards infrastructural development, which can be seen through the rising allocation towards infrastructural development in the Union budget. The real estate market is impacted by infrastructure growth. Development of new infrastructure such as roads, bridges, airports, smart cities etc., opens up new areas for development and increases the value of existing properties. It also attracts businesses and population growth to an area, which boosts the local economy and supports the real estate market.

Higher affordability

CRISIL forecasts that the per capita income will gradually improve with a pick-up in GDP growth and sustained low inflation. This is expected to be an enabler for domestic consumption leading to rise in demand for housing. Further, increase in household savings over the last decade coupled with availability of underwriting and providing credit to the vulnerable or informal segment owing to advancement in technology has also led to higher demand for housing.

Real estate prices are relatively higher though affordability has only improved historically



Note: The charts indicate the price per sqft based on top 10 markets -Delhi NCR, Mumbai, Pune, Ahmedabad, Chennai, Kolkata, Bangalore, Chandigarh, Hyderabad, and Kochi, at a Pan India level, the overall prices could be way lower than estimates, Affordability is computed as average price per sqft / annual income; Source: CRISIL MI&A

Regulatory Initiatives in the Housing Finance segment

- **Regulatory Authority on HFCs shifted from NHB to the RBI**

The Union Budget 2019-20 announced the transfer of regulatory power on housing finance companies (HFCs) from National Housing Bank (NHB) to the Reserve Bank of India (RBI). This has resulted in streamlined regulations and implementation as well as better risk management framework for HFCs. The

RBI Act was amended to give the central bank powers to regulate HFCs. This move was expected to ensure there is greater parity in regulations for NBFCs and HFCs.

- **PSL eligibility increased in Housing**

The RBI has increased (under the notification released in June 2018) eligibility for priority sector lending (PSL) in housing loans with a view to converge PSL guidelines with Pradhan Mantri Awas Yojana (PMAY). The eligibility has been increased from Rs 2.8 million to Rs 3.5 million for metropolitan centers and from Rs 2 million to Rs 2.5 million for other centers. The cost of dwelling units has been capped at Rs 4.5 million in metropolitan centers and at Rs 3 million in other centers. The on-lending limits given to NBFC/HFCs from Banks was also raised from Rs. 1 million to Rs. 2 million.

Under the eligibility criteria prescribed by the National Housing Bank under The Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 ("Refinance Scheme") read with paragraph 12.1(i) of the Master Directions – Reserve Bank of India (Priority Sector Lending – Targets and Classification) Directions, 2020 ("PSL Master Directions"), individual housing loans with a ticket size lower than ₹2.5 million in non-metropolitan areas are considered as affordable housing loans. Furthermore, paragraph 12.1(i) of the PSL Master Directions sets out that loans up to ₹3.5 million to individuals in metropolitan centres (with population of one million and above); and up to ₹2.5 million to individuals in other centers, for the purchase or construction of a dwelling unit, per family, will be eligible for priority sector classification, provided the overall cost of the dwelling unit in the metropolitan centre and at other centres does not exceed ₹4.5 million and ₹3.0 million, respectively.

- **NHB's Refinance to aid borrowing cost for HFCs catering to Affordable housing**

While access to the debt markets allows large HFCs to mobilize resources at competitive rates, niche HFCs have benefited from the NHB's refinance schemes. The NHB runs various schemes under which it refinances banks and HFCs. This funding is available to affordable housing players at a very low rate, but it comes with an interest rate capping. It leads to improvement in borrowing cost but at the same time reduces the yield too, while keeping the spread at similar levels.

- **Securitisation and reconstruction of financial assets and enforcement of security and interest (SARFAESI) Act 2002**

HFCs registered under the NHB Act with assets above Rs. 1 billion were bought under the ambit of SARFAESI act which has helped them accelerate recoveries.

- **Implementation of the Real Estate (Regulation and Development) Act (RERA)**

Implementation of the Real Estate (Regulation and Development) Act (RERA) in 2017 had a direct impact on the supply-demand dynamics in the sector. RERA is expected to improve transparency, timely delivery, and organized operations over time. It does not permit developers to launch new projects before registering them with the real estate authority.

This is a major shift from the practices followed earlier by developers, wherein they managed to sell part of the project through soft/pre-launch activities. RERA puts an end to fund diversion across projects as it mandates 70% of the funds collected from customers for a specific project should be maintained in a separate escrow account and used only for the same project. Besides, developers have to disclose project-related information, such as project plan, layout, government approvals, carpet area of units, construction status and delivery schedule.

- **Framework of RERA**

Transparency:

- Compulsory registration of all ongoing and upcoming real estate projects; existing under-construction projects which have not received completion certificates is covered under the Act. Developers to disclose project-related details including project plan, layout, and government approvals to the customers. The details include sanctioned FSI, number of buildings and wings, number of floors in each building, etc.
- Buyers to pay only for the carpet area.
- Consent of two-third allottees to be taken for any major addition or alteration.

Liability:

- Any structural defect, or any other obligations of the promoter as per the agreement for sale, brought to notice of promoter within five years from possession to be rectified free of cost.
- No false statements or exaggerated commitments to be given in advertisements.
- Buyers have to comply with payment schedule mentioned in model sale agreement (which mandates them to pay up to 30% of total consideration on execution of agreement, an additional up to 15% of total consideration on completion of plinth work; and remaining payment as per clauses mentioned in the model sale agreements).

Security:

- 70% of the money received from buyers for a particular project to be transferred to an escrow account.
- Withdrawals to be in accordance with project completion and need to be certified by engineer, architect, and a practicing-chartered accountant.

Discipline:

- Developers have to register their projects with the RERA before advertising or marketing.
- Brokers/ agents to be registered with RERA.

- Project details to be updated quarterly on RERA website.
- Project accounts to be audited annually by a CA.

Compliance:

- In case of delay, developers have to pay interest to home buyers at State Bank of India's highest marginal cost of lending rate plus 2%.
- Developer may terminate the agreement in case of three payment defaults by buyers (by giving 15 days' notice).
- Monetary fines/ penalties for not registering the projects and continuous default/ non-compliance with any provision of the Act/ non-compliance with the order of Appellate Tribunal (does not mention imprisonment penalties to developers).

Justice:

- The complaint at the initial stage will be handled by the authority, with further appeal resting with the RERA Appellate Tribunal. A second appeal is also allowed to be filed before a High Court

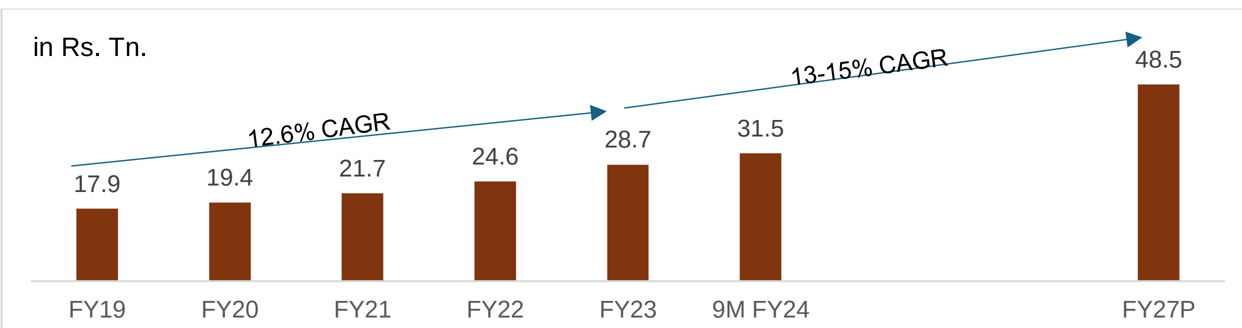
Overview of Housing Finance Market of India

Housing finance market in India to log a CAGR of 13-15% from fiscal 2023 to 2027

The Indian housing finance market clocked a healthy ~12.6% CAGR (growth in credit outstanding) during fiscals 2019 -2023, on account of rise in disposable incomes, healthy demand, and greater number of players entering the segment. Over the past two fiscals, housing finance segment has seen favourable affordability on account of stable property rates and improved annual income of individual borrowers. The overall housing finance segment credit outstanding is ~Rs. 28.7 trillion as of FY23, which increased during fiscal 2023, the overall housing market grew 16.7%, led by the aspirations of a growing young population with rising disposable income migrating to metro cities and elevated demand in Tier 2 and 3 cities as well. Demand for home loans remained largely unscathed despite a sudden rise in repo rates. Moreover, the income of the salaried class remained largely intact despite the economic slowdown caused by the Covid-19 pandemic and rise in inflation, thereby allaying lenders' concerns about any deterioration in asset quality.

Going forward, Crisil MI&A expects overall housing segment to grow at a CAGR of 13-15% from FY23-27. The Government of India has been pursuing various social welfare schemes and initiatives to enhance the flow of credit to the housing sector and increase home ownership in India.

Housing finance outstanding witnessed a CAGR of 12.6% CAGR from FY19-23



Source: CRIF Highmark, CRISIL MI&A

Prime housing finance segment witnessed the fastest growth in housing finance from FY19-23

Among major ticket-size brackets, Prime housing segment (Loans above Rs. 5.0 million) witnessed the fastest growth from FY19-23, growing at a CAGR of 19.5% which was followed by loans in the mass market housing segment (loans between Rs. 2.5 to 5.0 million) which grew at a CAGR of 15.9% and affordable housing (loans less than Rs. 2.5 million) growing at a rather slow pace of 5.6% during the fiscals.

Market share for ticket brackets, in value terms was equally distributed as of 9MFY2, with both affordable and prime housing segment accounting for 34% market share each and mass market housing with 32% share in overall housing.

Outstanding credit ticket-wise breakup (INR Tn.)							
Ticket Size	FY19	FY20	FY21	FY22	FY23	9M FY24	FY19-23 CAGR
Affordable Housing (Less than Rs. 2.5 million)	8.2	8.6	9.1	9.6	10.2	10.6	5.6%
Mass Market Housing Rs. 2.5 to 5.0 million	5.1	5.7	6.6	7.7	9.2	10.2	15.9%
Prime Housing More than Rs. 5.0 million	4.6	5.1	6.0	7.3	9.3	10.7	19.5%

Source: CRIF Highmark, CRISIL MI&A

Ticket Size	FY19	FY20	FY21	FY22	FY23	9M FY24
Affordable Housing (Less than Rs. 2.5 million)	46%	44%	42%	39%	35%	34%
Mass Market Housing Rs. 2.5 to 5.0 million	29%	30%	30%	31%	32%	32%
Prime Housing More than Rs. 5.0 million	26%	26%	28%	30%	33%	34%

Source: CRIF Highmark, CRISIL MI&A

Disbursement Ticket-wise breakup (INR Bn.)							
Ticket Size	FY19	FY20	FY21	FY22	FY23	9M FY24	FY19-23 CAGR
Affordable Housing (Less than Rs. 2.5 million)	1345.2	1371.7	1485.6	1961.3	2261.7	1651.8	13.9%
Mass Market Housing Rs. 2.5 to 5.0 million	1083.4	1227.0	1552.1	2195.9	2626.9	1982.0	24.8%
Prime Housing More than Rs. 5.0 million	979.2	1137.2	1507.4	2594.6	3682.8	3260.6	39.3%

Source: CRIF Highmark, CRISIL MI&A

Ticket-wise share in disbursement (%)						
Ticket Size	FY19	FY20	FY21	FY22	FY23	9M FY24
Affordable Housing (Less than Rs. 2.5 million)	39.5%	36.7%	32.7%	29.0%	26.4%	24.0%
Mass Market Housing Rs. 2.5 to 5.0 million	31.8%	32.8%	34.1%	32.5%	30.6%	28.7%
Prime Housing More than Rs. 5.0 million	28.7%	30.4%	33.2%	38.4%	43.0%	47.3%

Source: CRIF Highmark, CRISIL MI&A

Urban regions account for highest share (~66%) in Housing finance outstanding as of 9MFY24, followed by Rural regions with ~20% share

As of 9MFY24, urban regions accounted for the highest share in overall housing finance credit with 65.6% share which was followed by rural regions which accounted for 19.6% share, Semi-urban regions accounted for 9.1% share in credit outstanding. Among tier's fastest credit growth during FY19-23 was witnessed in rural regions which grew at a CAGR of 15.3%, followed by Semi-urban regions with a CAGR of 15.0%. Urban regions witnessed a CAGR of 11.4% during the fiscals.

Tier (Rs. Tn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)
Urban Regions	12.3	13.2	14.7	16.5	19.1	21.1	65.6%
Semi-Urban Regions	1.4	1.6	1.8	2.1	2.5	2.9	9.1%
Rural Regions	3.1	3.4	3.9	4.5	5.4	6.3	19.6%

Others	0.9	1.0	1.1	1.3	1.5	1.8	5.7%

Source: CRIF Highmark, CRISIL MI&A

Semi-urban regions had the highest asset quality among major tier brackets as of 9MFY24

Tier	FY19	FY20	FY21	FY22	FY23	9M FY24
Urban Regions	1.6%	2.4%	2.6%	2.5%	2.2%	2.1%
Semi-Urban Regions	1.9%	2.6%	2.5%	2.4%	2.0%	1.8%
Rural Regions	2.3%	3.1%	3.1%	2.8%	2.5%	2.2%
Others	1.5%	1.9%	2.0%	1.9%	1.7%	1.6%

Source: CRIF Highmark, CRISIL MI&A

Top 10 states account for ~81% share in overall Housing finance outstanding as of 9MFY24, with top 5 states accounting for ~57% share

As of 9MFY24, Maharashtra accounted for the highest share in overall housing finance outstanding with ~22% share, which was followed by Karnataka, Tamil Nadu, Telangana, and Gujarat in top 5 states by credit outstanding with 10.5%, 8.7%, 8.1%, 8.0% share respectively. In terms of asset quality, among the top 20 states Telangana had the highest asset quality with 90+ DPD at 0.9%, followed by Assam and Rajasthan with 1.0% and 1.3% 90+ DPD respectively. While Tamil Nadu, Delhi and Madhya Pradesh had the lowest asset quality among top 20 states with 4.0%, 3.3% and 3.1% 90+ DPD respectively.

Maharashtra accounted for the highest share in housing finance credit as of 9MFY24, with ~22% share

State (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	CAGR (FY19-23)	Share (9MFY 24)	GNPA (FY23)	GNPA (9M FY24)
Maharashtra	4065.6	4344.8	4867.4	5483.5	6373.1	7118.0	11.9%	22.1%	2.0%	2.4%
Karnataka	1951.4	2094.2	2292.0	2538.9	2983.4	3369.9	11.2%	10.5%	1.6%	2.1%
Tamil Nadu	1753.0	1883.4	2054.7	2261.3	2560.1	2812.0	9.9%	8.7%	2.3%	4.0%
Telangana	1151.3	1312.6	1536.4	1830.5	2246.6	2611.4	18.2%	8.1%	0.7%	0.9%
Gujarat	1375.0	1502.6	1718.8	2008.4	2298.8	2595.2	13.7%	8.0%	1.6%	2.0%
Uttar Pradesh	1079.4	1166.6	1299.0	1459.9	1703.4	1924.6	12.1%	6.0%	3.0%	2.6%
Delhi	953.1	997.1	1091.4	1211.3	1401.4	1538.8	10.1%	4.8%	3.4%	3.3%
Andhra Pradesh	751.4	857.7	970.5	1130.0	1352.9	1536.0	15.8%	4.8%	1.2%	1.5%
Rajasthan	640.8	715.7	816.7	946.4	1120.5	1288.8	15.0%	4.0%	1.3%	1.3%
Kerala	799.2	876.8	954.7	1063.8	1199.9	1285.9	10.7%	4.0%	2.1%	2.5%
West Bengal	597.4	652.2	734.0	847.1	990.1	1093.9	13.5%	3.4%	2.5%	2.7%

Madhya Pradesh	542.7	597.7	669.7	749.3	880.2	1007.9	12.8%	3.1%	3.1%	3.1%
Haryana	567.3	600.9	662.9	757.6	887.4	1002.5	11.8%	3.1%	2.3%	2.1%
Punjab	325.5	346.8	381.8	436.5	502.9	565.7	11.5%	1.8%	3.4%	3.1%
Bihar	187.6	217.1	252.8	301.0	378.6	437.1	19.2%	1.4%	1.8%	1.5%
Odisha	183.3	200.3	226.2	262.8	317.1	354.8	14.7%	1.1%	2.0%	2.0%
Chhattisgarh	176.6	195.1	219.1	243.3	281.5	312.1	12.4%	1.0%	1.8%	1.8%
Uttarakhand	169.3	184.1	211.2	234.3	268.5	299.4	12.2%	0.9%	1.8%	1.7%
Assam	120.7	135.2	149.5	166.4	190.8	205.0	12.1%	0.6%	1.6%	1.0%
Jharkhand	110.5	120.6	134.4	155.2	183.5	203.0	13.5%	0.6%	2.0%	1.9%
Others	361.2	407.3	454.9	517.7	605.1	677.3	13.8%	2.1%	1.7%	1.7%

Source: CRIF Highmark, CRISIL MI&A

Among Top 10 states, Delhi had the highest concentration of top 5 districts in overall housing credit outstanding

State	Number of Districts	Top 5 Districts	Concentration in portfolio outstanding (%)	Concentration in loan accounts (%)
Maharashtra	36	Pune, Thane, Mumbai, Mumbai Suburban, Raigarh	75%	58%
Karnataka	30	Bangalore, Mysore, Dakshina Kannada, Belgaum, Dharwad	83%	73%
Tamil Nadu	37	Chennai, Tiruvallur, Coimbatore, Chengalpattu, Kancheepuram	55%	42%
Telangana	33	Medchal Malkajgiri, Hyderabad, Rangareddy, Sangareddy, Warangal	79%	68%
Gujarat	33	Ahmadabad, Surat, Vadodara, Rajkot, Gandhinagar	71%	62%
Uttar Pradesh	75	Ghaziabad, Lucknow, Gautam Buddha Nagar, Kanpur Nagar, Agra	50%	43%
Andhra Pradesh	13	Visakhapatnam, Krishna, East Godavari, Guntur, West Godavari	61%	62%
Delhi	10	South Delhi, Northwest Delhi, West Delhi, Southwest Delhi, East Delhi	84%	82%
Kerela	14	Ernakulam, Thiruvananthapuram, Thrissur, Kottayam, Kollam	60%	55%

Rajasthan	33	Jaipur, Jodhpur, Ajmer, Kota, Udaipur	55%	48%

Source: CRIF Highmark, CRISIL MI&A

Share of Top 10 districts in overall housing finance outstanding witnessed a decline from 51% in FY19 to 48% by 9MFY24

City (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24
Mumbai	2209.3	2343.9	2626.4	2963.5	3377.1	3605.0
Delhi NCR	1818.8	1901.8	2075.2	2305.9	2668.5	2889.1
Bangalore	1495.6	1591.4	1742.0	1907.0	2227.0	2453.4
Pune	943.2	998.4	1118.7	1238.5	1451.6	1593.2
Hyderabad	585.7	658.4	763.6	900.2	1099.5	1236.4
Chennai	680.6	707.4	749.6	808.5	905.0	961.5
Kolkata	438.3	471.7	530.7	608.8	703.9	766.1
Ahmadabad	373.0	411.5	477.5	568.4	656.8	717.6
Surat	356.0	370.2	404.9	441.0	481.1	521.4
Jaipur	222.9	241.1	274.8	308.5	355.3	394.7
Others	8739.4	9713.1	10935.2	12555.0	14800.3	16386.0

Source: CRIF Highmark, CRISIL MI&A

Public sector banks account for highest share (43%) among lenders in overall housing finance credit as of 9MFY24

As of 9M FY24, public sector banks account for the highest share in overall housing credit (43.1%), which was followed by Private Sector banks with 35.6% share and Housing Finance companies with 18.8% share. During fiscals 2019-23, among major lenders Private Sector banks witnessed the fastest growth in housing finance credit with a CAGR of 16%, followed by public sector banks with 13.1% CAGR during FY19-23 and housing finance companies with 10% CAGR.

Lender-wise share in outstanding credit across fiscals 2019 to 2023

Lender (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)	CAGR (FY19-23)
Foreign Banks	241.9	229.9	227.6	247.7	225.7	239.8	0.8%	-1.7%
Housing Finance Companies	4228.5	4300.5	4470.3	4703.4	5389.4	5919.5	18.8%	6.3%
NBFCs	125.1	135.9	261.8	196.0	282.9	349.1	1.1%	22.6%
Private Sector Banks	5626.2	6100.9	7215.8	8774.0	10167.8	11218.9	35.6%	15.9%
Public Sector Banks	7630.2	8612.6	9469.0	10587.2	12496.6	13586.4	43.1%	13.1%
Small Finance Bank	11.0	29.7	54.3	97.3	163.8	211.1	0.7%	96.2%

Source: CRIF Highmark, CRISIL MI&A

Public Sector Banks account for highest share (~40%) among lenders in overall housing finance disbursement as of 9MFY24

Among major lenders, Private Sector Banks witnessed the fastest growth in housing finance disbursement across fiscals 2019 to 2023, followed by Public Sector Banks and Housing Finance companies with ~23% and ~21% CAGR from FY19-23. Among lenders, public sector banks had the highest share, at ~40%, followed by private sector banks with ~37% share and Housing finance companies with ~19% share as of 9MFY24.

Lender wise disbursement in Overall Housing Finance from FY19-9M FY24

Lender (INR Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9MFY24)	CAGR (FY19-23)
Foreign Banks	21.9	24.2	32.6	57.5	98.9	88.5	1.3%	45.7%
Housing Finance Companies	782.6	655.8	884.7	1280.6	1652.8	1323.3	19.2%	20.6%
NBFCs	34.9	38.5	36.4	60.6	117.6	117.0	1.7%	35.5%
Private Sector Banks	1048.3	1234.0	1706.0	2724.9	3171.9	2520.3	36.6%	31.9%
Public Sector Banks	1511.9	1766.7	1860.9	2575.4	3441.5	2771.8	40.2%	22.8%
Small Finance Bank	8.2	16.8	24.6	52.7	88.7	73.5	1.1%	81.4%

Source: CRIF Highmark, CRISIL MI&A

Lender wise disbursement in Prime Housing Finance from FY19-9M FY24

Lender (INR Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)	CAGR (FY19-23)
Foreign Banks	17.5	19.4	27.4	49.5	89.5	81.0	2%	50.4%
Housing Finance Companies	155.7	119.1	160.7	260.5	407.4	361.9	11%	27.2%
NBFCs	8.2	9.9	10.0	23.5	50.2	41.8	1%	57.4%
Private Sector Banks	452.8	531.0	776.8	1369.8	1712.5	1470.1	45%	39.5%
Public Sector Banks	344.9	457.6	532.2	889.8	1417.5	1301.0	40%	42.4%
Small Finance Bank	0.1	0.2	0.4	1.6	5.6	4.8	0%	222.6%

Source: CRIF Highmark, CRISIL MI&A

Lender wise disbursement in Affordable Housing Finance from FY19-9M FY24

Lender (INR Bn)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9MFY24)	CAGR (FY19-23)
Foreign Banks	1.2	1.3	1.3	2.0	2.2	1.7	0.1%	15.0%
Housing Finance Companies	408.9	340.0	417.0	576.8	721.2	554.9	33.6%	15.2%
NBFCs	17.2	18.8	18.7	25.3	47.4	55.9	3.4%	28.8%
Private Sector Banks	287.0	337.5	395.0	542.2	553.7	389.1	23.6%	17.9%
Public Sector Banks	623.3	659.3	632.4	770.4	869.2	596.2	36.1%	8.7%
Small Finance Bank	7.6	14.7	21.3	44.5	68.0	54.0	3.3%	73.1%

Source: CRIF Highmark, CRISIL MI&A

Private Sector Banks had the highest asset quality among major lenders with 90+ DPD at 1.2% as of 9MFY24

In FY20, GNPAs of the overall housing loan portfolio increased sharply from 1.6% to 2.3% due to slippages as consumer perception of the general economic situation, employment scenario, and household income had plunged. Continuing consumer pessimism and lockdowns in FY21 further impacted self-employed customers and micro, small, and medium enterprises.

Housing finance companies also faced asset-quality challenges, leading to a peak rise of ~60 bps in GNPAs to 3.9% in FY21. Subsequently, the asset quality of the overall housing finance improved to 2.3% in fiscal 2022, and 2.0% in FY23, led by economic recovery, pent-up credit demand, and government schemes such as the Liquidity Infusion Facility Scheme, the Affordable Housing Fund and other measures announced under the ambit of the Atma Nirbhar Bharat Package.

Among lenders, private sector banks had the highest asset quality, with 90+ DPD at ~1.2%, followed by public sector banks at ~1.6%. 90+ DPD for housing finance companies stood at ~4.8% as of 9M FY24.

Private Banks had the highest asset quality among lenders as of 9M FY24

Lender	FY19	FY20	FY21	FY22	FY23	9M FY24
Foreign Banks	2.34%	2.66%	2.89%	2.52%	2.00%	1.66%
Housing Finance Companies	1.65%	3.35%	3.86%	4.18%	3.44%	4.77%
NBFCs	4.18%	4.44%	2.51%	5.46%	4.20%	2.49%
Private Banks	1.02%	1.22%	1.81%	1.37%	1.21%	1.23%
Public Sector Banks	1.97%	2.51%	2.14%	2.12%	1.95%	1.68%
Small Finance Banks	3.11%	2.07%	2.35%	2.82%	2.87%	2.46%

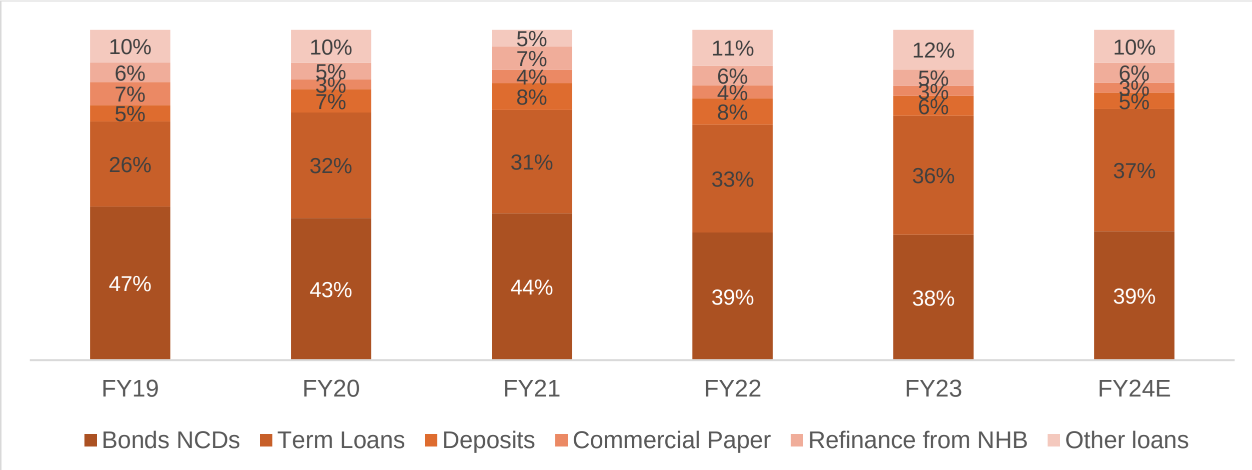
Source: CRIF Highmark, CRISIL MI&A

Bonds and Term loans dominated the borrowing mix of HFCs in FY23

Non-convertible debentures (NCDs) were the main source of borrowings for HFCs; however, their share declined from 47% as of FY19 to 38% as of FY23. During FY23, the repo rate rose cumulatively by 250 bps causing capital market borrowings to become more expensive, however, the share of term loans of banks continued to increase and rose 300 bps to 36% due to better cost of funds compared with capital market borrowings. Refinancing from NHB accounts for 5% share of the total borrowing mix of HFCs, it accounts for a major share in the borrowing mix of affordable housing finance companies.

According to CRISIL MI&A, share of term loans in borrowings is estimated to have climbed ~100 bps to 37% in FY24, and the share of NCDs is estimated have rose another 100 bps to 39%. Going forward, share of term loans is likely to rise by another 100 bps with banks increasing their exposures to HFCs owing to increased risks weight by RBI for Banks lending to NBFCs which specifically excludes HFCs

Share of term loans and NCD issuances to rise in the borrowing mix of HFCs/NBFCs



Note: E – Estimated, Other loans includes Inter corporate loans, external commercial borrowings

Source: Company Reports, CRISIL MI&A

Co lending partnerships between banks and NBFC/HFCs

Co-lending arrangement between Bank and NBFC / HFCs is to extend credit by joint contribution of funds at the facility level by both the lenders and sharing of risks and rewards. The revised Co-lending Model (CLM) put in place by RBI vide notification RBI/2020-21/63 dated 05 November 2020, with intention to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs / HFCs.

Under the co-lending model banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to-back basis in their books. However, NBFCs shall be required to retain a minimum of 20 per cent share of the individual loans on their books. Additionally, banks can claim priority sector status in respect of their share of credit while engaging in the CLM adhering to the specified conditions.

Shift in housing finance landscape post-merger of HDFC Bank and HDFC

Merger of HDFC Bank and HDFC took place in the first half of fiscal 2024 which has led to changes in the dynamics of the retail housing finance market. In fact, growth of HFCs between fiscals 2019 and 2021 was supported by high growth of HDFC due to its wide geographic reach and market penetration. At end-fiscal 2023 of the Rs 28.7 trillion housing finance market, the share of banks was ~79%, with the balance with HFCs/NBFCs. Some of the key players after HDFC are LIC Housing Finance, Bajaj Housing Finance, Indiabulls Housing Finance, PNB Housing Finance and CanFin Homes.

Following the merger of the two entities, the market share of banks vis-à-vis NBFC/HFC has shifted 80:20 from 66:34, with banks having majority market share. Further, in terms of HFCs/NBFCs, other large players with favourable funding profile, strong parentage, and capability to invest and expand into newer geographies would gain market share from smaller players. Further this would also open up funding limits for HFCs from banks to lend to the end consumer.

Key Risks in the Overall Housing Finance Industry

Economic Scenario: Any trends or events that have a significant impact on India's economy, including a rise in interest rates, could impact the financial standing and growth plans of HFCs. A decline in the interest rate with strong growth in the economy will boost the purchasing power of people, thus boosting demand for houses and housing loans. When the government introduces rules and regulations such as the Benami Transactions Act, establishes bodies such as the Real Estate Regulatory Authority, or takes decisions such as demonetisation, all to control illegal activities and curb black money, demand for housing and housing loans takes a hit.

Insufficiency of data for credit appraisal: Credit-score availability in India is still at a nascent stage despite the presence of credit bureaus. In several cases, borrowers lack a formal proof of income documents. This makes it difficult to judge the ability of the borrower to repay.

Liquidity Risk: The apartment culture has still not developed in many of the semi-urban and rural areas, leading to financing of individual properties. This makes it harder to sell a property that is built according to the needs of the borrower. Also, in rural areas, it may become difficult to find a buyer for a repossessed property due to cultural issues. All this leads to liquidity risk.

Collateral Fraud: The rising number of collateral frauds in the sector is becoming a serious issue. As a result, lending institutions are being forced to implement additional control measures, which increase their underwriting expenses.

Delay in project approvals and construction: The cash flows of HFCs are largely dependent on the timely completion of projects in which their customers have bought housing. If the project gets delayed, the borrower may start defaulting on loans. Additionally, project delays also tend to impact growth in the loan book.

Thin spreads in Housing Finance: HFCs face a risk of thin net interest margins due to lower interest rates in the segment as compared to other asset classes like MSME loans, vehicle financing etc. This is further aggravated due to intense competition in the segment among HFCs, banks and NBFCs.

Asset Liability Mismatch: Housing finance faces significant ALM challenges, arising due to inherent mismatch between the long-term nature of housing loans and the shorter-term funding sources used by housing finance companies (HFCs). This creates a maturity mismatch, where assets have longer durations than liabilities.

Competitive Scenario

Trend in Housing Finance AUM for key housing finance companies

Assets under management (Rs. Bn.)	FY20	FY21	FY22	FY23	FY24	CAGR (FY20-24)
LIC Housing Finance Limited	1,619	1,807	2,042	2,288	2,441	10.8%
Bajaj Housing Finance Limited	221	239	332	411	528	24.4%
PNB Housing Finance Limited	488	437	409	473	512	1.2%
Can Fin Homes Limited	N/A	N/A	N/A	249	273	-
ICICI Home Finance*	97	104	119	127	158	13.0%

Note: Housing Loan book considered for ICICI Home Finance, Source: Company Reports. CRISIL MI&A

Asset quality for HFCs to improve in FY25, with rise in return on assets

As per CRISIL MI&A estimates, net interest margins for HFCs stood at 3.2% in FY24, which is expected to reach 3.3% in FY25 due to expectation of decline in repo rates in the first quarter of FY25. During FY24-25, GNPA (90+ DPD) for HFCs is expected to witness a slight decline to 1.3% in FY25. Further, credit costs are expected to decline 20 bps in fiscal 2025 on account of higher write-offs in the first half of fiscal 2024 translating into an improvement in return on assets in FY25 at 2.0%.

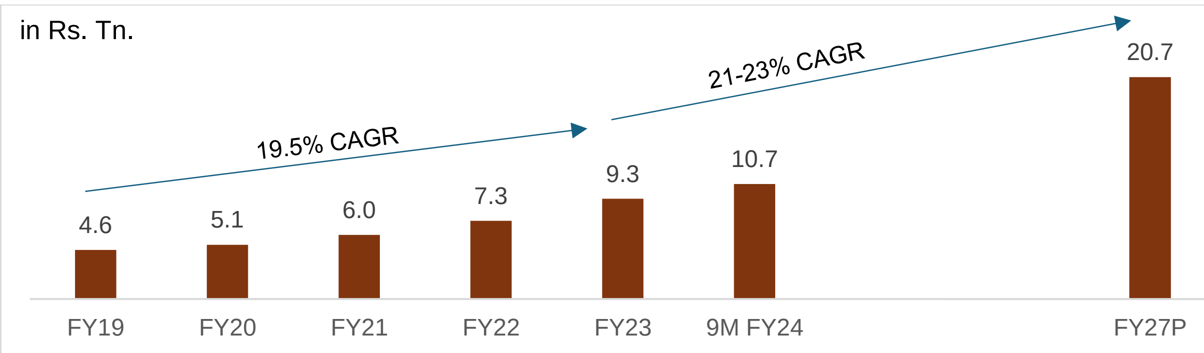
Parameter	FY20	FY21	FY22	FY23	FY24E	FY25P
Net Interest Margins (%)	2.5%	2.8%	3.0%	3.3%	3.2%	3.3%
Credit Cost	0.6%	0.7%	0.6%	0.5%	0.6%	0.4%
Return on Assets (%)	1.3%	1.4%	1.5%	1.9%	1.9%	2.0%
GNPA (%)	2.4%	2.2%	2.1%	1.6%	1.4%	1.3%

Source: Company Reports. CRISIL MI&A

Overview of Prime Housing Finance Market in India

Prime Housing Finance Market in India stood at Rs. 9.3 Tn. as of FY23, witnessing a CAGR of 19.5% from FY19-23

Prime housing finance market in India is defined by loans above Rs. 5.0 million in ticket size, the market has witnessed a CAGR of 19.5% from FY19-FY23, to reach Rs. 9.3 Tn. from Rs. 4.6 Tn. in FY19, the growth witnessed by prime housing finance market during the fiscals has been faster than the growth in overall housing finance market of India, during FY19-23, overall housing witnessed a CAGR of 12.6%.



Source: CRIF Highmark, CRISIL MI&A

Urban Regions account for ~77% of the total prime housing finance credit outstanding

Urban regions accounted for the highest share of Prime housing finance credit outstanding in FY23, with a share of 77%, witnessing a CAGR of 17.6%, followed by rural regions with 11% share and semi-urban regions with 6.2% share. Among major tier brackets, semi-urban regions witnessed the fastest growth with a CAGR of ~28%, followed by rural regions with 26% CAGR and urban regions with 18% CAGR during fiscals 2019-23.

Tier (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)	CAGR (FY19-23)
Urban Regions	3862.6	4211.6	4915.7	5884.9	7382.5	8466.8	77.4%	17.6%
Semi-Urban Regions	198.8	236.1	294.8	384.5	540.2	675.8	6.2%	28.4%
Rural Regions	373.6	440.3	541.2	691.3	957.2	1198.5	11.0%	26.5%
Other Regions	147.4	184.8	241.6	328.5	466.8	592.2	5.4%	33.4%

Source: CRIF Highmark, CRISIL MI&A

Top 5 states account for ~67% of Total Prime Housing Finance market outstanding as of 9M FY24

Maharashtra tops the list in share of total prime housing finance market outstanding accounting for ~28% market share, which was followed by Karnataka with ~15% share, Telangana (~10%), Delhi (7.5%) and Tamil Nadu with ~7.4% share, these top 5 states accounted for a total of 67% share as of 9M FY24. Fastest growth among the top 5 states was witnessed in Telangana with a CAGR of ~34% from FY19-23, followed by Karnataka with ~19% CAGR.

Top 10 states account for ~88% of Total prime housing finance market outstanding as of 9M FY24

State (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)	CAGR (FY19-23)
Maharashtra	1453.3	1574.7	1844.9	2175.2	2681.9	2958.7	27.6%	16.6%
Karnataka	668.3	757.9	890.9	1062.5	1357.3	1570.0	14.6%	19.4%
Telangana	275.2	350.6	464.8	632.5	892.6	1100.7	10.3%	34.2%
Delhi	443.6	463.2	516.5	603.3	747.8	804.1	7.5%	13.9%
Tamil Nadu	370.5	405.1	454.5	543.2	690.0	789.4	7.4%	16.8%
Gujarat	243.8	262.1	318.8	393.0	491.4	558.8	5.2%	19.2%
Haryana	233.3	248.5	283.8	345.3	438.1	504.8	4.7%	17.1%
Uttar Pradesh	198.9	218.6	252.2	311.8	414.2	492.0	4.6%	20.1%
Andhra Pradesh	87.8	113.4	144.1	198.5	286.9	362.4	3.4%	34.5%
Kerela	110.3	126.7	145.3	174.6	223.0	259.8	2.4%	19.2%
West Bengal	109.2	116.5	144.3	179.0	224.9	257.0	2.4%	19.8%
Rajasthan	103.5	113.5	137.7	167.6	216.2	254.0	2.4%	20.2%
Madhya Pradesh	66.2	72.7	87.2	107.2	143.2	170.5	1.6%	21.3%
Punjab	53.9	56.6	66.8	82.6	105.2	122.3	1.1%	18.2%
Bihar	19.9	25.6	35.1	49.6	76.4	97.1	0.9%	40.0%
Others	144.8	167.0	206.5	263.4	358.0	433.8	4.0%	25.4%

Source: CRIF Highmark, CRISIL MI&A

Top 10 cities accounted for ~68% share of total prime housing finance outstanding as of 9M FY24

As of 9MFY24, top 10 cities accounted for ~68% share in total prime housing finance credit outstanding with Mumbai accounting for the highest share (19%) followed by Delhi NCR with ~13% share and Bangalore with ~13% share. Top 5 cities accounted for ~57% share in the total prime housing finance outstanding witnessing a fall in share from 63% in FY19.

City (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)	CAGR (FY19-23)
Mumbai	1097.20	1177.99	1363.01	1594.83	1903.29	2043.50	19.0%	14.8%
Delhi NCR	743.26	779.46	871.85	1026.83	1287.70	1431.33	13.3%	14.7%
Bangalore	604.69	682.34	799.84	943.47	1193.89	1373.47	12.8%	18.5%
Hyderabad	190.87	235.00	301.40	395.34	540.76	646.97	6.0%	29.7%
Pune	258.37	285.77	348.16	414.89	543.40	632.75	5.9%	20.4%
Chennai	235.72	251.87	277.03	322.44	396.41	441.70	4.1%	13.9%
Ahmadabad	99.35	110.08	134.28	171.29	212.85	235.29	2.2%	21.0%
Kolkata	100.18	105.88	130.23	159.63	197.30	221.89	2.1%	18.5%
Surat	74.03	75.17	87.87	98.41	113.28	127.65	1.2%	11.2%
Jaipur	53.77	56.11	67.13	78.53	97.92	112.26	1.0%	16.2%
Lucknow	28.23	32.62	37.96	47.37	62.35	73.60	0.7%	21.9%
Indore	31.22	33.52	39.96	48.13	62.96	72.98	0.7%	19.2%
Visakhapatnam	20.25	24.56	30.96	42.13	58.65	70.41	0.7%	30.4%
Ernakulam	34.49	38.08	43.36	50.46	61.26	70.14	0.7%	15.4%
Coimbatore	28.78	32.52	37.62	45.43	59.76	69.64	0.6%	20.0%
Others	982.06	1151.94	1422.94	1850.27	2555.20	3111.92	29.0%	27.0%

Source: CRIF Highmark, CRISIL MI&A

Growth drivers in the Prime Housing Finance Segment:

Rapid Urbanization and Rise in affluence: Rapid urbanization has taken place in metro and urban regions which has led to rise in population of upper middle-class population and high net worth individuals in the nation. With rise in affluence, there is a shift in lifestyle preferences where individuals prefer to live in prime locations in metro cities and bigger houses with multiple amenities.

Rising real estate prices in Metro cities: CRISIL MI&A estimates price appreciation in real estate across metro cities was ~5-7% in FY23 and ~4% in FY24, while few metro cities like NCR and Hyderabad witnessed even steeper price appreciation, going forward prices are expected to rise by 3-5% in FY25.

Infrastructural development and growing connectivity: Significant improvements have been made in infrastructure development along with rising metro connectivity and proximity to airports which has led to rise in industrial growth in Tier-1 & 2 cities, while also creating demand for housing near business hotspots across regions.

Rise in aspiration to own spacious and luxurious homes: Post covid-19 induced lockdowns, owing to rise in amount of time spent indoors and rising hybrid work culture, home buyers now look for larger, spacious and luxury housing options as housing is no longer considered a necessity.

Competitive Landscape in the Prime Housing Segment

Banks dominate the prime housing finance segment in terms of market share in total credit outstanding

Prime housing finance segment is primarily dominated by banks, with private sector banks accounting for highest share in in credit outstanding with 48% as of 9M FY24, followed by public sector banks with 37% share. Housing finance companies account for the third highest share among lenders with 11% share. While NBFCs account for very minuscule share in outstanding credit with 1% share as of 9M FY24.

Private sector banks account for highest share in the Prime Housing Segment with ~48% share as of 9M FY24

Lender Outstanding (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9MFY24
Foreign Banks	190.9	184.4	186.2	207.1	191.1	202.5
Housing Finance Companies	867.6	821.8	811.0	839.2	1056.0	1194.7
NBFCs	47.1	45.7	87.9	57.4	103.6	125.9
Private Sector Banks	2170.1	2376.1	2919.5	3706.9	4583.0	5191.4
Public Sector Banks	1306.5	1644.5	1988.1	2476.6	3405.7	4010.5
Small Finance Banks	0.2	0.5	0.9	2.2	7.5	10.5

Source: CRIF Highmark, CRISIL MI&A

Lender Share (%)	FY19	FY20	FY21	FY22	FY23	9M FY24
Foreign Banks	4.2%	3.6%	3.1%	2.8%	2.0%	1.9%
Housing Finance Companies	18.9%	16.2%	13.5%	11.5%	11.3%	11.1%
NBFCs	1.0%	0.9%	1.5%	0.8%	1.1%	1.2%

Private Sector Banks	47.4%	46.8%	48.7%	50.9%	49.0%	48.4%
Public Sector Banks	28.5%	32.4%	33.2%	34.0%	36.4%	37.4%
Small Finance Banks	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%

Source: CRIF Highmark, CRISIL MI&A

Among major lenders, in prime housing finance segment, Private sector banks had the best asset quality (~1.0%) among lenders as of 9M FY24, followed by public sector banks (~1.5%)

Among major lenders in the prime housing finance segment, private sector banks had the lowest GNPA (1.0%) among lenders as of 9M FY24, followed by public sector banks with 1.5% and non-banking finance companies with GNPA at 2.5%. Housing finance companies had their GNPA at ~4.4% as of 9MFY24.

Lender	FY19	FY20	FY21	FY22	FY23	9M FY24
Foreign Banks	1.62%	1.91%	2.14%	1.77%	1.72%	1.34%
Housing Finance Companies	2.03%	5.15%	6.36%	6.71%	4.85%	4.42%
NBFCs	4.47%	3.90%	1.55%	5.40%	3.50%	1.91%
Private Sector Banks	0.85%	1.21%	1.71%	1.20%	1.04%	0.97%
Public Sector Banks	2.05%	2.52%	2.10%	1.91%	1.76%	1.46%
Small Finance Banks	0.00%	1.12%	0.80%	0.72%	0.88%	0.89%

Source: CRIF Highmark, CRISIL MI&A

Profitability trend of HFCs in the Prime Housing Finance Segment

Housing finance companies focused on the Prime Housing Finance segment had ROAs at 1.4% as of FY23, which has increased from 1.1% from FY19. Cost of funds for HFCs has declined from 7.4% in FY19 to 6.5% in FY23, due to decline in cost of funds and rise in yield on advances, NIMs for HFCs has increased from 2.0% in FY19 to 2.6% in FY23, while credit costs and operational expenses continue to remain low, with Opex ranging from 0.5 to 0.6% and credit costs ranging from 0.3% to 0.6%

Improving profitability trend of HFCs in the Prime Housing Finance Segment

Parameters	FY19	FY20	FY21	FY22	FY23
Yield on Advances	8.8%	9.7%	9.3%	8.2%	8.6%
Cost of Funds	7.4%	7.8%	7.2%	6.2%	6.5%
Net Interest Margins	2.0%	2.3%	2.4%	2.3%	2.6%
Operational Expenses	0.5%	0.5%	0.5%	0.6%	0.6%
Credit Cost	0.3%	0.8%	0.7%	0.7%	0.6%
Return on Assets	1.1%	1.1%	1.3%	1.1%	1.4%

Note: Bajaj Housing Finance, Limited, LIC Housing Finance Limited, PNB Housing Finance Limited, Can Fin Homes Limited and Tata Capital Housing Finance Limited considered for calculation of profitability of players involved in prime housing finance segment.
Source: Company Reports, CRISIL MI&A

Overview of Affordable Housing Finance Market in India (<Rs.2.5 million)

As per Refinance Scheme under Affordable Housing Fund for the Financial Year 2021-22 issued by the National Housing Bank, read with the Master Directions–Reserve Bank of India (Priority Sector Lending–Targets and Classification) Directions, 2020." Housing Loans with a ticket size of less than Rs. 2.5 million are considered as Affordable Housing Loans.

Encouraging and favourable trends in affordable housing finance market (loans up to Rs. 2.5 million); market to bounce back strongly in the long term

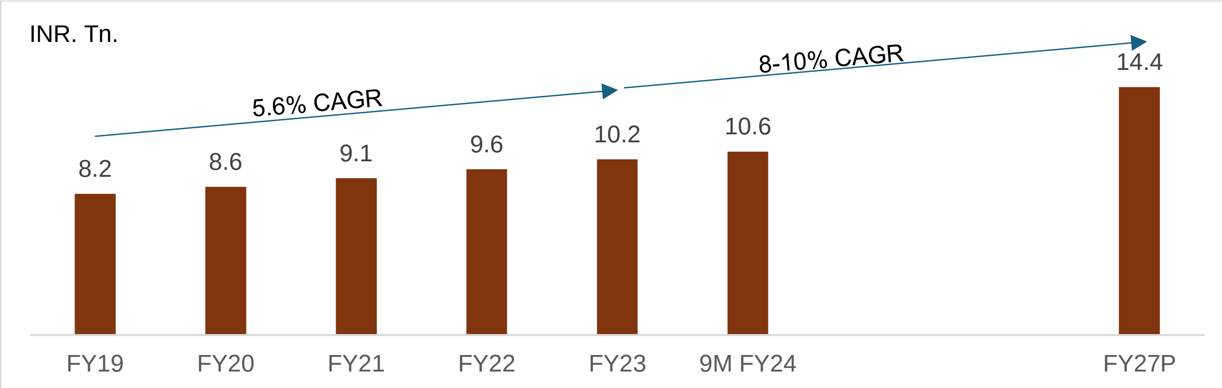
The overall size of the affordable housing finance market in terms of loan outstanding was Rs 10.6 Tn. as of 9MFY24, constituting around 34% of the overall housing finance market. Public Sector Banks have the highest market share of ~46% in the Affordable Housing finance segment. Housing Finance Companies accounted for 27% of the market (Outstanding loans of Rs 2.8 trillion as of 9MFY24) followed by Private banks with market share of 24% (outstanding loans of Rs 2.5 trillion as of 9M FY24).

Between fiscals 2019 and FY23, the growth in the affordable housing loans has remained subdued, with the segment having witnessed a CAGR of 5.6% as compared to overall housing loans, which has grown by ~12.6% during the same time. This can be primarily attributed to a slowdown in economic activity, funding challenges due to NBFC crisis and the Covid-19 pandemic. Further, rise of hybrid work model and working from home along with rising propensity to spend merged with rising standard of living due to rising incomes of individuals has led to an increase in demand for bigger residential homes. As a result, the sale in affordable housing took a beating whereas high-end and mid-segment housing gained the maximum in the last couple of years.

In fiscal 2021, with the onset of pandemic in the first half of the fiscal, it had a disproportionate impact on the segment's EWS and LIG customers vis-a-vis the overall segment that caters to salaried individuals, whose incomes have been relatively stable. However, with faster-than-expected recovery in the second half because of the central and state government measures, proactive measures by RBI and tax sops with low interest rates led to growth in the affordable housing segment.

The segment growth was again curtailed by the pandemic's second wave in the first quarter of fiscal 2022, leading to localized lockdowns by the state governments, which affected economic activities in tier II and III cities. But continued assistance from the government and the central bank, supported by higher demand for housing, and continued penetration in tier II and III cities by affordable HFCs helped the segment recover and bounce back.

Affordable Housing finance market to grow at 8-10% between FY23-27



Source: CRIF Highmark, CRISIL MI&A

While the market has grown at a tepid pace in the past 2-3 years, CRISIL MI&A is sanguine on future growth due to the following reasons:

- Government's increased focus on housing and incentives being given by some state governments such as lowering stamp duties to aid housing demand
- Rising demand for affordable homes as consumers increasingly work out of Tier 3/4 cities in a post-Covid world
- Preference for owning homes seems to be on the rise in the post-Covid world

CRISIL MI&A expects the industry to pick up steam gradually and the affordable housing segment to touch Rs 14.4 trillion by FY27, translating into an 8-10% CAGR between FY23-27.

Top 10 states account for ~78% of total affordable housing credit outstanding as of 9M FY24

There are wide variations in size and growth in the Affordable Housing finance segment across states and within various districts in the same state as well, which indicate latent opportunity for offering loans to unserved or underserved customers. Based on loans outstanding in the affordable housing finance market, among states, as of 9M FY24 Maharashtra accounted for the highest share in the affordable housing finance segment, accounting for ~18% share, which was followed by Gujarat, Tamil Nadu, and Uttar Pradesh accounting for ~11%, ~9% and ~7% respectively.

State (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)	CAGR (FY19-23)
Maharashtra	1521.9	1571.3	1641.	1718.8	1796.6	1872.4	17.6%	4.2%
Gujarat	814.9	879.9	966.2	1072.	1124.9	1187.1	11.2%	8.4%
Tamil Nadu	828.4	864.1	915.4	951.4	988.9	997.9	9.4%	4.5%
Uttar Pradesh	553.2	581.3	626.7	662.2	709.1	748.9	7.0%	6.4%
Karnataka	586.2	590.3	590.4	600.4	631.2	656.2	6.2%	1.9%

Rajasthan	387.6	426.7	467.6	518.0	575.8	629.0	5.9%	10.4%
Kerela	471.7	499.6	523.6	550.9	572.9	574.3	5.4%	5.0%
Andhra Pradesh	431.9	453.9	469.4	492.4	527.9	553.4	5.2%	5.1%
Madhya Pradesh	365.3	396.3	430.7	461.1	509.1	552.3	5.2%	8.7%
Telangana	452.9	464.3	477.0	488.8	509.2	526.4	4.9%	3.0%
West Bengal	349.1	372.2	395.6	426.9	465.5	489.6	4.6%	7.5%
Delhi	242.2	247.4	258.2	263.8	270.3	278.5	2.6%	2.8%
Punjab	197.1	206.0	216.4	233.5	250.1	264.9	2.5%	6.1%
Haryana	191.3	199.0	208.1	217.9	227.1	233.2	2.2%	4.4%
Bihar	113.7	124.5	135.3	147.8	167.9	182.3	1.7%	10.2%
Others	674.8	719.8	766.2	807.9	862.2	889.5	8.4%	6.3%

Source: CRIF Highmark, CRISIL MI&A

Top 10 cities account for ~30% share of total affordable housing credit outstanding as of 9M FY24

City (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	Share (9M FY24)	CAGR (FY19-23)
Delhi NCR	548.7	561.9	587.5	606.3	626.0	649.8	6.1%	3.3%
Mumbai	573.1	582.4	603.0	623.7	623.9	642.8	6.0%	2.1%
Pune	327.8	329.6	337.0	341.1	347.7	354.0	3.3%	1.5%
Kolkata	228.8	240.2	253.7	270.9	291.9	307.0	2.9%	6.3%
Bangalore	315.7	307.8	301.0	294.8	299.2	301.4	2.8%	-1.3%
Surat	200.1	207.2	217.4	227.7	232.4	242.5	2.3%	3.8%
Ahmadabad	172.4	185.5	204.3	224.3	230.9	241.6	2.3%	7.6%
Chennai	206.7	203.9	203.3	198.5	194.3	191.3	1.8%	-1.5%
Hyderabad	179.7	179.9	182.0	181.8	184.1	186.0	1.7%	0.6%
Jaipur	111.2	119.5	129.8	137.4	145.9	157.1	1.5%	7.0%
Indore	84.5	91.1	99.2	104.9	116.3	127.2	1.2%	8.3%
Nashik	85.5	89.3	97.8	106.7	114.3	123.3	1.2%	7.5%
Vadodara	93.4	95.9	103.1	111.0	112.6	117.7	1.1%	4.8%
Coimbatore	87.2	92.3	98.6	101.8	106.8	108.0	1.0%	5.2%
Rajkot	57.9	65.1	75.6	86.7	91.2	96.2	0.9%	12.0%
Others	4909.8	5245.7	5596.0	5997.5	6471.6	6790.7	63.8%	7.1%

Source: CRIF Highmark, CRISIL MI&A

Housing finance companies accounted for second highest share among lenders in the affordable housing segment as of 9M FY24

Among lenders, as of 9M FY24, public sector banks accounted for the highest share (46%), which was followed by housing finance companies accounting for ~27% share and private banks which accounted for 24% share.,share of housing finance companies rose in 9MFY24 to 27% from 26% in FY22, primarily due to the below listed factors:

•Creation of niches in catering to particular categories of customers

•Strong understanding of customer segment, excellent customer service and diverse channels of business sourcing

•Ability to assess collateral in smaller towns

•Ability to assess and underwrite non-salaried individuals

•Focus and presence in smaller cities as well

These factors are expected to help them maintain market share in the future as banks have become risk averse and are focusing on high ticket customers with good credit profiles. By virtue of being largely focused on metros and urban areas, ticket sizes of banks and large HFCs have followed rising property prices. A focus on the urban salaried segment by banks and large HFCs has left non-salaried as well as Tier III, and rural market open to anyone with the capability to operate in that segment.

Housing finance companies accounted for second highest share among lenders in the affordable housing segment as of 9M FY24

Lender (Rs. Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24
Foreign Banks	18.7	16.1	14.0	13.0	10.2	11.0
Housing Finance Companies	2254.2	2331.9	2404.9	2484.5	2670.2	2865.5
Non-Banking Finance Companies	45.4	53.1	91.2	94.1	119.2	151.9
Private Sector Banks	1789.5	1897.4	2140.3	2420.1	2484.2	2599.0
Public Sector Banks	4064.7	4273.1	4391.7	4519.3	4773.8	4843.7
Small Finance Banks	10.3	25.9	47.1	84.1	131.6	165.6

Source:CRIF Highmar, CRISIl MI&A

Public sector banks accounted for the highest share in affordable housing credit outstanding among lenders as of 9M FY24

Lender Share (%)	FY19	FY20	FY21	FY22	FY23	9M FY24
Foreign Banks	0.2%	0.2%	0.2%	0.1%	0.1%	0.1%
Housing Finance Companies	27.5%	27.1%	26.5%	25.8%	26.2%	26.9%
Non-Banking Finance Companies	0.6%	0.6%	1.0%	1.0%	1.2%	1.4%
Private Sector Banks	21.9%	22.1%	23.5%	25.2%	24.4%	24.4%
Public Sector Banks	49.7%	49.7%	48.3%	47.0%	46.9%	45.5%
Small Finance Banks	0.1%	0.3%	0.5%	0.9%	1.3%	1.6%

Source:CRIF Highmark, CRISIl MI&A

Private Sector banks had the highest asset quality among lenders, followed public sector banks as of 9M FY24

Lender	FY19	FY20	FY21	FY22	FY23	9M FY24
Foreign Banks	8.6%	10.3%	11.7%	12.8%	6.2%	5.8%
Housing Finance Companies	1.7%	2.9%	3.3%	3.7%	3.4%	5.8%
Non-Banking Finance Companies	4.7%	5.1%	3.6%	5.2%	4.4%	2.6%
Private Sector Banks	1.4%	1.3%	2.1%	1.8%	1.7%	1.9%
Public Sector Banks	2.2%	2.9%	2.5%	2.7%	2.5%	2.3%
Small Finance Banks	3.3%	2.1%	2.4%	2.9%	2.9%	2.5%

Source: CRIF Highmark, CRISIL MI&A

Profitability trend of HFCs in affordable housing finance segment

Housing finance companies operating in the affordable housing finance segment have witnessed a rise in their margins from FY20-23, with NIMs rising from 3.5% in FY20 to 5.0% in FY23, during the same period credit costs for the companies also witnessed a fall from 0.9% in FY20 to 0.4% in FY23. Rising interest margins followed by fall in credit costs has helped these companies to raise their return on assets, which rose from 1.3% in FY20 to 2.8% in FY23. Going forward, NIMs for HFCs are expected to grow with rise in interest income,while credit costs are expected to decline to 0.3% in the next fiscal, this would in-turn translate into higher return on assets for the companies.

Parameter	FY19	FY20	FY21	FY22	FY23
Net Interest Margins	3.5%	3.5%	3.8%	4.6%	5.0%
Credit Cost	0.7%	0.9%	0.8%	0.7%	0.4%
Return on Assets	1.1%	1.3%	1.7%	2.3%	2.8%

Source: Company Reports, CRISIL MI&A

Key growth drivers for affordable housing finance

Government Initiatives

- **Pradhan Mantri Aawas Yojana -Urban:** The scheme aims to fill the supply-demand gap in the housing sector. On supply side, the scheme offers incentives for beneficiary-led housing, public private partnerships (PPP) in building homes for economicaly weaker sections (EWS) and low income group (LIG) by offering incentives such as allowing higher floor space index and announcing grants and subsidies for slum redevelopment. On the demand side, the PMAY provides credit-linked subsidies to stimulate demand
- **Pradhan Mantri Aawas Yojana -Grameen:** The scheme is for the rural population who don't have their own houses. It provides financial assistance and interest rate subsidy
- **Relaxation of ECB guidelines:** The relaxed external commercial borrowing (ECB) guidelines will enable easier access to overseas funds and stimulate the sector
- **GST:** The GST rate for affordable housing projects was cut
- **EPF corpous withdrawal:** Permission to withdraw 90% of employees provident fund (EPF) corpus enables prospective home buyers to make the down payment and pay their home loan EMIs

Regulator initiatives

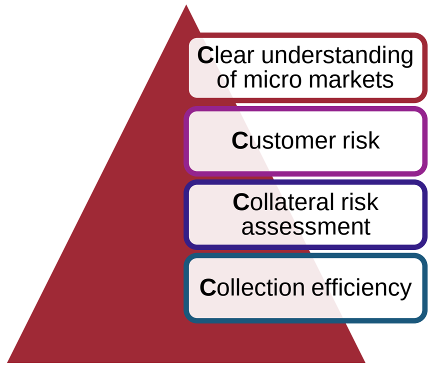
- **Regulatory authority of HFCs shifted from NHB to RBI:** The Budget 2020 proposed a change in regulatory oversight and supervision of HFCs from the NHB to the Reserve Bank of India (RBI). This shift led to more streamlined regulations and better risk management framework for HFCs.
- **NHB refinance:** The NHB refinancing schemes help HFCs lower their borrowing costs
- **PSL guidelines revised:** The RBI increased the threshold limit for home loans to be classified as PSL in order to promote Pradhan Mantri AawasYojana

Other factors

- **Low mortgage penetration**
- **Rising urbanisation and nuclearisation:** Decreasing average household size and rising level of urban population create more housing demand.
- **Rising income levels:** Rising income levels help improve the affordability of houses
- **Rising independent housing demand:** Increase in share of independent houses helps housing finance market grow in the long term

Source: CRISIL MI&A

4C's to succeed in affordable housing finance segment



Source: CRISIL MI&A

Clear understanding of micro markets

Given the target borrower's profile, companies need to have a clear and deeper understanding of micro markets and develop a strong local network. The strong network helps companies to source business from niche customer category by having references from their existing customers. It is observed that successful companies in the segment generally focus on a few geographies where they have a good understanding and scale up gradually to manage costs and asset quality better.

Customer risk

Affordable housing segment customers are generally in formal sector jobs with low incomes, or are self-employed (carpenter, plumber, vegetable vendor, driver, etc.), people who may not have income proofs. Due to lack of income proofs, the underwriting process requires detailed personal discussion with the borrower as well as friends and neighbors in order to assess the source of income and cash flow patterns as well as the stability and habits of the customer. Given the nature of the process, operating costs are typically very high; therefore, companies who are, able to achieve a fair degree of standardization in the process by building models revolving around specific customer profiles and/or geographies are likely to better manage operating costs.

Customer credit risk assessment procedure

Understanding customer's stability

- Visit borrower's home to understand current situtaion, stability and duration of stay
- Interview neighbours to verify duration, understanding habits
- Check credit and banking history (if applicable)

Understanding customer's source of income

- Visit applicant's business to observe business flows, estimate revenue and costs, etc.
- Understand the business model and its key strength and weakness, fluctations in cash flows, etc.
- Interview business acquaintances, competitors, etc., to benchmark estimates

Standardisation

- Build a database of informal sector customers' income by profession in different localities to increase assessment reliability

Source: CRISIL MI&A

Collateral risk assessment

Properties under the low-income segment sometimes lack proper property titles, especially in the outskirts of large cities, semi-urban and rural areas. With better availability of information and due diligence by the technical team, companies can mitigate the risk. While lenders do take appropriate due diligence measures to safeguard against this risk while sanctioning the loan, there have been instances of borrowers mortgaging the same property with multiple lenders.

For instance, A CERSAI Search is conducted to enumerate the details of a property and if it has been mortgaged against a loan. The field investigation team visits the property to look at the land and the construction status regularly. The financier also conducts a title search, which provides detail such as a size, location, boundaries, and ownership information. As of now, registration of charge on underlying property is undertaken by lenders on selective basis (high-ticket loans/in case of corporate borrowers) only.

Collection efficiency

Given that companies in the segment typically cater to the lower income customer segment, many of whom may not be financially literate, a strong focus on collections and monitoring risk of default at customer level is vital to manage asset quality. It is observed that events that impact the economy as a whole (such as demonetization) and local factors (natural calamities or other events in the place of employment/work of the borrower) have a disproportionate impact on asset quality in the segment. Therefore, companies are increasingly using analytical and monitoring tools enabled by technology to better predict default risk. In addition, there is an increasing focus on pushing customers to make EMI payments through ECS.

Overview of Loan Against Property (LAP)

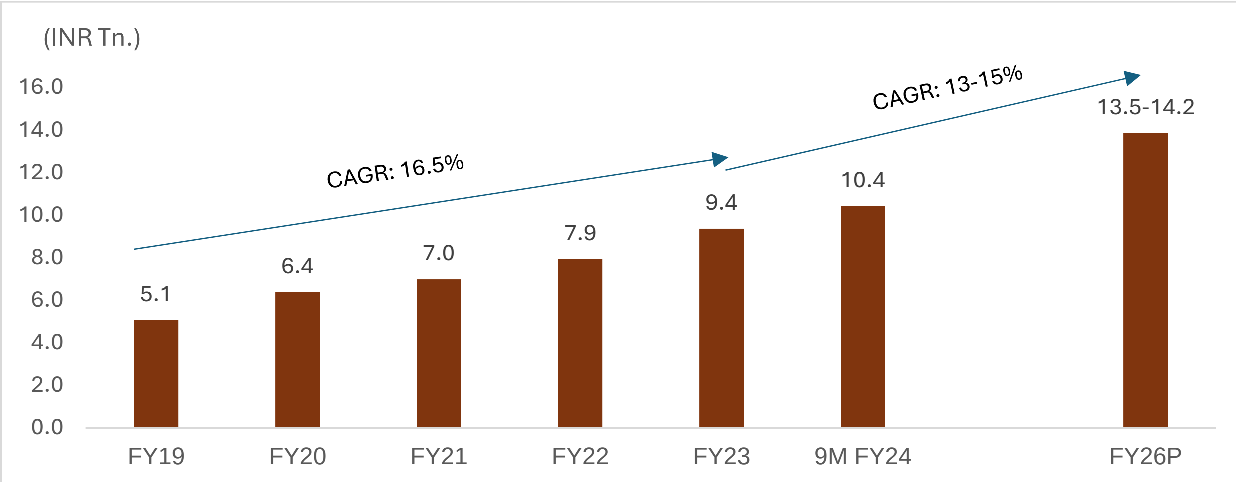
Loan Against Property (LAP) is availed by mortgaging a property (residential or commercial) with the lender. LAP is a secured loan, as it provides collateral to the financier in the form of the property. Its interest rate is lower than personal or business loans. It could be used for either business or personal purposes. It can be availed by both salaried and self-employed individuals. For all these reasons, LAP has become popular among borrowers in recent years. The financiers offering housing loans, also provide LAP loans primarily due to synergies between the two products, higher yields offered by LAP, while continuing to cater to similar customer profile, collateral requirement, and ticket size.

Key factors that contributed to high LAP growth are:

- **Quick turnaround time, lower interest rate, lesser documentation**: LAP loans are disbursed in about half the time taken for a secured MSME loan. It is also offered at a lower interest rate than unsecured MSME loans, personal and business loans. LAPs require less documentation than other secured SME products, leading to fewer hassles for customers.
- **Greater transparency in the system**: Demonetization, GST, and the government's strong push for digitization have led to higher transparency in the system. This will keep pushing up loan amount eligibility of borrowers. Formalization will also help many new borrowers come under the ambit of formal lending channels.
- **Rising penetration of formal channels:** Increase in financial penetration and availability of formal credit in Tier 2 and Tier 3 cities will reduce the share of informal credit.
- **Higher comfort for lenders**: Lenders are comfortable disbursing LAP loans, as they offer favorable risk-return characteristics, compared with MSMEs and unsecured loans. They also offer higher recovery in case of default (supported by the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002) and better asset quality

The overall Loan against property segment market size has expanded from Rs 5.1 trillion as of fiscal 2019 to Rs. 10.4 trillion as of 9-month fiscal 2024. The growth in this segment is attributed to increasing financial penetration and an increase in the number of players in the targeted market. Overall LAP portfolio witnessed a growth of 9.3% year-on-year in fiscal 2021, owing to slowdown in the economic activity and pandemic induced lockdown imposed by the government. From fiscal 2022 to fiscal 2023, the overall LAP portfolio grew by 17.9% year-on-year on account of improved economic conditions and normalization of business activities. Going forward, CRISIL MI&A expects overall LAP portfolio to grow at 13-15% CAGR between fiscal 2023 and fiscal 2026 aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and continued government support.

Overall LAP portfolio to grow at 13-15% CAGR between fiscal 2023 and fiscal 2026



Note: P: Projected, Overall LAP contains the data from both consumer and commercial bureau

Source: CRIF Highmark, CRISIL MI&A

LAP portfolio outstanding (Rs. 5 million to Rs. 10 million) witnessed a CAGR of 16.7% growth between fiscal FY19-23

Among major ticket-size brackets, LAP portfolio outstanding (< Rs. 2.5 million) witnessed the fastest growth from FY19-23, growing at a CAGR of 20.6% which was followed by loans in the more than Rs. 2.5 million and less than Rs. 5 million ticket size segment outstanding which grew at a CAGR of 20.1% and loans in the more than Rs. 5 million and less than Rs. 10 million ticket size segment outstanding which grew at a CAGR of 16.7% during the fiscals.

LAP portfolio (more than Rs. 20 million) account for highest market share (32.1%) for ticket bracket, in value terms in 9M FY24, followed by loans in less than Rs. 2.5 million ticket size segment (28.8%) and loans in the more than Rs. 2.5 million and less than Rs. 5.0 million ticket size segment accounting for 14.0% market share. In volume terms, LAP portfolio with less than Rs. 2.5 million ticket size segments accounted for the highest share of the pie, with 84.9% share, in 9M FY24.

Ticket-wise volume outstanding (Number of Active Loans) (in millions)

Ticket Size	FY19	FY20	FY21	FY22	FY23	9M FY24	9M FY24 Share (%)	CAGR (FY19-23)
Less than Rs. 2.5 million	1.9	2.5	2.9	3.6	4.5	5.3	84.9%	23.3%
Rs. 2.5 to 5 million	0.2	0.3	0.3	0.4	0.4	0.5	8.0%	20.7%
Rs. 5 to 10 million	0.1	0.1	0.2	0.2	0.2	0.2	3.7%	17.7%
Rs. 10 to 20 million	0.1	0.1	0.1	0.1	0.1	0.1	1.9%	15.2%

More than Rs. 20 million	0.0	0.1	0.1	0.1	0.1	0.1	1.5%	15.1%

Source: CRIF Highmark, CRISIL MI&A

Ticket-wise Portfolio breakup (INR Bn.)

Ticket Size	FY19	FY20	FY21	FY22	FY23	9M FY24	9M FY 24 Share (%)	CAGR (FY19-23)
Less than Rs. 2.5 million	1,222.0	1,540.8	1,785.3	2,123.4	2,587.7	3,001.3	28.8%	20.6%
Rs. 2.5 to 5 million	616.1	783.6	897.3	1,060.1	1,281.8	1,454.9	14.0%	20.1%
Rs. 5 to 10 million	634.8	799.4	884.2	1,010.9	1,177.6	1,320.9	12.7%	16.7%
Rs. 10 to 20 million	705.1	883.1	945.0	1,041.9	1,184.0	1,297.1	12.4%	13.8%
More than Rs. 20 million	1,894.5	2,381.4	2,470.3	2,703.0	3,103.8	3,346.2	32.1%	13.1%

Source: CRIF Highmark, CRISIL MI&A

Lender and Ticket wise share (%) and Portfolio Breakup (INR Bn) (9M FY2024)

Lender / Ticket Size	Less than Rs. 2.5 million	Rs. 2.5 to 5 million	Rs. 5 to 10 million	Rs. 10 to 20 million	More than Rs. 20 million	Total Industry
Foreign Banks	5.9	13.3	30.5	57.8	248.7	356.3
HFC	751.8	295.3	192.1	145.5	508.6	1,893.3
NBFCs	527.7	262.3	302.3	331.5	764.7	2,188.7
Private Banks	1,076.8	664.3	644.5	672.8	1,671.3	4,729.7
PSU Banks	486.4	199.8	142.6	84.1	147.7	1,060.6
Small Finance Bank	152.7	19.9	8.9	5.3	5.1	191.9
Total Industry	3,001.3	1,454.9	1,320.9	1,297.1	3,346.2	10,420.5

Source: CRIF Highmark, CRISIL MI&A

Ticket-wise Disbursement (INR Bn.)

Ticket Size	FY19	FY20	FY21	FY22	FY23	9M FY24	9M FY 24 Share (%)	CAGR (FY19-23)
Less than Rs. 2.5 million	502.4	517.3	502.4	686.5	939.6	736.6	24.9%	16.9%
Rs. 2.5 to 5 million	272.3	255.5	242.3	340.8	468.9	375.8	12.7%	14.6%
Rs. 5 to 10 million	276.3	247.9	212.0	313.3	421.2	362.2	12.2%	11.1%
Rs. 10 to 20 million	317.6	261.2	205.2	311.0	423.2	353.9	12.0%	7.4%
More than Rs. 20 million	972.6	758.0	525.3	886.2	1,318.0	1,128.3	38.2%	7.9%

Total Industry	2,341.2	2,039.9	1,687.2	2,537.8	3,570.9	2,956.8	100.0%	11.1%

Source: CRIF Highmark, CRISIL MI&A

Urban regions account for highest share (71.0%) in LAP portfolio credit as of 9MFY24 followed by Rural regions with 16.7% share

As of 9FY24, Urban regions accounted for the highest share in overall LAP portfolio credit with 71.0% share which was followed by Rural regions which accounted for 16.7% share, and Semi-urban regions accounted for 7.8% share. Among tier's, Semi Urban regions witnessed credit growth of 22.2% during FY19-23 followed by Rural regions with a CAGR of 22.0%. Urban regions witnessed a CAGR of 14.6%.

Tier (INR Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	9M FY 24 Share (%)	CAGR (FY19-23)
Urban Region	3,953.3	4,953.8	5,346.0	5,973.9	6,828.9	7,395.4	71.0%	14.6%
Semi-Urban Region	306.6	391.7	441.3	534.1	682.7	814.6	7.8%	22.2%
Rural Region	655.6	830.9	943.6	1,124.3	1,450.0	1,739.2	16.7%	22.0%
Others	157.7	212.5	252.1	307.6	395.7	471.3	4.5%	25.9%

Source: CRIF Highmark, CRISIL MI&A

Maharashtra account for 18.2% share in overall LAP outstanding as of 9MFY24, followed by Tamil Nadu accounting for 11.1% share while top 5 states accounted for 55.3% share

As of 9MFY24, Maharashtra accounted for the highest share in overall LAP outstanding with 18.2% share, which was followed by Tamil Nadu, Karnataka, and Gujarat state by credit outstanding with 11.1%, 9.9%, and 8.9% share respectively. in terms of overall LAP credit outstanding, Top 5 states accounted for total of 55.3% market share in 9M FY24. In terms of asset quality, Telangana stood with the best asset quality (1.11%), while West Bengal (5.78%) and Kerala (5.03%) states had the worst asset quality as of 9M FY24.

Maharashtra accounted for the highest share in LAP outstanding credit as of 9M FY24, with ~18.2% share

State	FY19	FY20	FY21	FY22	FY23	9M FY24	9M FY24 Share (%)	CAGR (FY19-FY23)	GNPA (FY23)	GNPA (9M FY24)
Maharashtra	1,016.7	1,281.9	1,389.1	1,568.7	1,773.0	1,895.1	18.2%	14.9%	4.66%	4.38%
Tamil Nadu	572.7	697.1	760.9	844.7	1,007.7	1,155.6	11.1%	15.2%	5.47%	4.25%
Karnataka	473.2	596.8	669.6	761.9	918.8	1,030.4	9.9%	18.0%	3.86%	2.96%
Gujarat	457.4	582.6	637.8	724.4	837.6	924.3	8.9%	16.3%	2.65%	2.21%
Delhi	476.6	580.1	610.2	650.9	716.5	758.2	7.3%	10.7%	3.62%	2.80%
Telangana	226.5	309.0	373.1	463.6	597.0	711.1	6.8%	27.4%	1.22%	1.11%
Rajasthan	277.9	354.6	391.2	457.8	551.0	631.6	6.1%	18.7%	3.05%	2.83%
Uttar Pradesh	276.7	337.5	363.3	417.1	510.5	570.9	5.5%	16.5%	4.01%	3.13%
Haryana	223.2	285.3	291.0	332.9	405.0	474.9	4.6%	16.1%	2.68%	1.86%

Andhra Pradesh	158.5	199.5	222.7	266.1	337.0	399.6	3.8%	20.7%	2.98%	2.64%
Madhya Pradesh	148.5	193.9	220.6	262.4	324.8	372.3	3.6%	21.6%	3.95%	3.36%
Punjab	161.7	203.9	221.1	249.2	281.1	307.9	3.0%	14.8%	4.82%	3.70%
West Bengal	154.3	211.4	224.0	244.9	274.2	289.6	2.8%	15.5%	6.42%	5.78%
Kerala	174.1	208.7	222.6	240.8	270.1	285.1	2.7%	11.6%	5.70%	5.03%
Others	76.5	97.8	102.8	115.6	130.7	142.7	1.4%	14.3%	3.79%	3.24%
Chhattisgarh	65.4	79.5	86.5	96.1	109.7	115.8	1.1%	13.8%	4.50%	3.76%
Uttarakhand	42.3	51.5	57.7	69.6	81.7	91.2	0.9%	17.9%	3.05%	2.57%
Bihar	30.5	38.6	44.4	58.5	77.9	89.4	0.9%	26.4%	4.74%	2.14%
Odisha	29.5	41.3	48.3	56.8	73.7	80.9	0.8%	25.7%	3.54%	3.64%
Assam	17.4	21.0	25.1	30.9	43.9	52.7	0.5%	26.0%	2.74%	2.46%
Jharkhand	13.5	17.3	21.1	27.1	35.4	41.1	0.4%	27.3%	6.93%	2.69%

Source: CRIF Highmark, CRISIL MI&A

State wise loan concentration of Top 5 districts (9M FY24)

State	Top 5 Districts	Share of Top 5 Districts	Bottom 5 Districts	Share of Bottom 5 Districts
Maharashtra	Pune, Thane, Mumbai, Mumbai Suburban and Nashik	60.1%	Gadchiroli, Hingoli, Sindhudurg, Gondiya and Parbhani	0.6%
Karnataka	Bangalore, Mysore, Belgaum, Tumkur and Davanagere	62.5%	Uttara Kannada, Kodagu, Yadgir, Udupi and Gadag	2.9%
Tamil Nadu	Coimbatore, Thiruvallur, Chennai, Chengalpattu and Madurai	32.6%	The Nilgiris, Ramanathapuram, Perambalur, Tirupathur and Ariyalur	3.4%
Gujarat	Ahmadabad, Surat, Vadodara, Rajkot and Bharuch	63.6%	The Dangs, Gir Somnath, Narmada, Porbandar and Devbhoomi Dwarka	1.1%
Telangana	Medchal Malkajgiri, Hyderabad, Rangareddy, Sangareddy and Nalgonda	61.8%	Kumuram Bheem Asifabad, Mulugu, Adilabad, Jayashankar Bhupalapally and Medak	1.1%
Uttar Pradesh	Ghaziabad, Lucknow, Gautam Buddha Nagar, Agra and Meerut	43.4%	Mahoba, Shrawasti, Chitrakoot, Balrampur and Banda	0.3%
Andhra Pradesh	East Godavari, Visakhapatnam, Krishna, West Godavari and Guntur	58.0%	Y.S.R., Srikakulam, Vizianagaram, Anantapur and Prakasam	19.4%
Delhi	North West, West, South, South West and East	78.2%	New Delhi, North, North East, Central and Shahdara	21.3%
Kerala	Ernakulam, Thiruvananthapuram, Thrissur, Kollam and Kozhikode	60.8%	Wayanad, Idukki, Kasaragod, Pathanamthitta and Malappuram	13.1%
Rajasthan	Jaipur, Ajmer, Jodhpur, Bhilwara and Alwar	48.5%	Dhaulpur, Jaisalmer, Pratapgarh, Karauli and Sawai Madhopur	2.1%
Haryana	Gurgaon, Faridabad, Panipat, Karnal and Yamunanagar	52.3%	Mewat, Charki Dadri, Fatehabad, Mahendragarh and Palwal	5.6%
West Bengal	Kolkata, North Twenty Four Parganas, South Twenty Four Parganas, Hugli and Haora	62.3%	Jhargram, Kalimpong, Dakshin Dinajpur, Puruliya and Alipurduar	1.8%
Madhya Pradesh	Indore, Bhopal, Ujjain, Dewas and Dhar	51.0%	Dindori, Niwari, Sheopur, Anuppur and Umaria	0.3%
Punjab	Ludhiana, Jalandhar, Sahibzada Ajit Singh Nagar, Amritsar and Patiala	64.3%	Shahid Bhagat Singh Nagar, Tarn Taran, Fatehgarh Sahib, Barnala and Mansa	5.8%
Bihar	Patna, Muzaffarpur, Gaya, Vaishali and Purba Champaran	51.6%	Arwal, Sheohar, Sheikhpura, Jamui and Kishanganj	1.6%
Chhattisgarh	Raipur, Durg, Bilaspur, Janjgir - Champa and Rajnandgaon	75.7%	Bijapur, Narayanpur, Sukma, Balrampur and Gaurella Pendra Marwahi	0.6%

Odisha	Khordha, Cuttack, Ganjam, Baleshwar and Puri	52.0%	Debagarh, Baudh, Kandhamal, Nuapada and Malkangiri	1.4%
Uttarakhand	Dehradun, Hardwar, Udham Singh Nagar, Nainital and Garhwal	90.4%	Champawat, Bageshwar, Uttarkashi, Rudraprayag and Pithoragarh	4.1%
Assam	Kamrup Metropolitan, Kamrup, Sonitpur, Barpeta and Nalbari	53.6%	West Karbi Anglong, South Salmara Mancachar, Dima Hasao, Majuli and Karbi Anglong	0.7%
Jharkhand	Ranchi, Dhanbad, Purbi Singhbhum, Hazaribagh and Bokaro	67.4%	Jamtara, Pakur, Sahibganj, Godda and Simdega	1.5%

Source: CRIF Highmark, CRISIL MI&A

Private sector banks account for highest share (45.5%) among lenders in overall LAP outstanding credit in 9M FY24

As of 9M FY24, Private sector banks account for the highest share (45.5%) in overall LAP outstanding credit, which was followed by NBFCs with 21.0% share and Housing Finance companies (HFCs) with 18.2% share. During the fiscals 2019-23, among lenders the fastest growth in terms of CAGR, was witnessed by Small Finance banks with a CAGR of 73.1%, followed by Private sector banks and NBFCs with 24.1% and 16.8% CAGR.

Lender-wise LAP outstanding credit across fiscals 2019 to 2023

Lender (INR Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	CAGR (FY19-23)
Foreign Banks	349.4	422.5	383.7	388.3	364.0	356.3	1.0%
Housing Finance Companies	1,211.3	1,425.8	1,529.9	1,685.0	1,881.4	1,893.3	11.6%
NBFCs	982.3	1,249.7	1,388.5	1,462.9	1,828.7	2,188.7	16.8%
Private Sector Banks	1,762.2	2,456.7	2,838.6	3,427.9	4,183.0	4,729.7	24.1%
Public Sector Banks	757.9	814.5	812.1	924.9	1,010.2	1,060.6	7.4%
Small Finance Banks	10.0	19.7	30.1	50.9	90.0	191.9	73.1%
Total Industry	5,073.2	6,389.0	6,982.9	7,939.9	9,357.3	10,420.5	16.5%

Source: CRIF Highmark, CRISIL MI&A

Lender-wise share in LAP outstanding credit across fiscals 2019 to 2023

Lender wise share (%)	FY19	FY20	FY21	FY22	FY23	9M FY24
Foreign Banks	6.9%	6.6%	5.5%	4.9%	3.9%	3.4%
Housing Finance Companies	23.9%	22.3%	21.9%	21.2%	20.1%	18.2%
NBFCs	19.4%	19.6%	19.9%	18.4%	19.5%	21.0%
Private Sector Banks	34.7%	38.5%	40.7%	43.2%	44.7%	45.4%
Public Sector Banks	14.9%	12.7%	11.6%	11.6%	10.8%	10.2%
Small Finance Banks	0.2%	0.3%	0.4%	0.6%	1.0%	1.8%
Total Industry	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: CRIF Highmark, CRISIL MI&A

Private sector banks accounted for highest share (45.9%) among lenders in overall LAP disbursement in 9M FY24

Small finance banks witnessed the fastest growth (42.4%) in LAP disbursement across fiscals 2019 to 2023, followed by Private sector banks and NBFCs with 18.3% and 8.5% CAGR. Among lenders, Private sector banks had the highest share (45.9%) in overall disbursement followed by NBFCs (23.9%) and HFCs (16.4%) as of 9M FY24.

Lender-wise share and growth in LAP disbursement across fiscals 2019 to 2023

Lender (INR Bn.)	FY19	FY20	FY21	FY22	FY23	9M FY24	9M FY 24 Share (%)	CAGR (FY19-23)
Foreign Banks	170.1	159.4	66.7	123.3	169.8	112.9	3.8%	0.0%
Housing Finance Companies	551.0	412.0	314.9	473.8	638.0	485.9	16.4%	3.7%
NBFCs	562.4	334.6	304.6	432.9	780.5	707.7	23.9%	8.5%
Private Sector Banks	824.6	926.8	850.6	1,268.6	1,612.6	1,357.9	45.9%	18.3%
Public Sector Banks	215.9	182.7	125.3	199.7	298.9	224.6	7.6%	8.5%
Small Finance Banks	17.3	24.3	25.2	39.5	71.2	67.7	2.3%	42.4%
Total Industry	2,341.2	2,039.9	1,687.2	2,537.8	3,570.9	2,956.8	100.0%	11.1%

Source: CRIF Highmark, CRISIL MI&A

Among lenders in the overall LAP finance market, Private sector banks had the best asset quality (0.95%) as of 9M FY24

In the past, intense competition in the LAP segment led to aggressive lending by non-banks. They sourced major proportion of the book through balance transfer, whereby additional top-up loans were given leading to higher loan-to-value (LTV) ratios and thus higher risks in the LAP book. Between Fiscal 2020 and 2021, GNPAs of the LAP portfolio increased a sharp ~73 bps to 4.59% due to slippages as consumer perception of the general economic situation, employment scenario, and household income had plunged. Continuing consumer pessimism and lockdowns in FY21 further impacted self-employed customers and micro, small, and medium enterprises.

Housing finance companies also faced asset-quality challenges, leading to a peak rise of GNPAs to 7.47% in FY22 and 7.85% FY23. Subsequently, the asset quality of the overall LAP segment improved to 3.94% in fiscal 2023.

Among lenders private banks had the best asset quality (0.95%) as of 9M FY24, which was followed by small finance banks with 2.91% GNPA. As of 9M FY24, NBFCs and HFCs had 4.53% and 6.79% GNPAs respectively. Among major lenders, HFCs, NBFCs and Public banks witnessed the significant fall in their GNPAs in 9M FY24.

Private banks had the highest asset quality among lenders in LAP Finance segment as of 9MFY24

Lender-wise GNPA (90+DPD) in %age						
Lender	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**9M FY24**
Foreign Banks	1.81%	2.45%	4.67%	5.16%	4.16%	3.82%
Housing Finance Companies	1.85%	4.84%	5.62%	7.47%	7.85%	6.79%
NBFCs	4.72%	5.54%	6.75%	7.13%	5.36%	4.53%
Private Sector Banks	1.42%	1.29%	2.00%	1.41%	1.10%	0.95%
Public Sector Banks	6.91%	8.06%	7.96%	7.57%	5.81%	4.62%
Small Finance Banks	2.17%	1.80%	4.23%	4.71%	3.08%	2.91%
Total Industry	3.01%	3.85%	4.59%	4.67%	3.94%	3.27%

Source: CRIF Highmark, CRISIL MI&A

LAP portfolio with ticket size between Rs. 2.5 & Rs. 5.0 million had the lowest GNPA levels as of 9M fiscal 2024

Ticket Size-wise GNPA (90+DPD) in %age						
Ticket Size	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**9M FY24**
Less than Rs. 2.5 million	3.00%	3.60%	4.00%	4.02%	3.52%	3.10%
Rs. 2.5 to 5 million	2.72%	3.37%	3.88%	3.84%	3.32%	2.87%
Rs. 5 to 10 million	2.69%	3.64%	4.24%	4.40%	3.69%	2.98%
Rs. 10 to 20 million	2.68%	3.74%	4.56%	4.63%	3.79%	3.21%
More than Rs. 20 million	3.34%	4.29%	5.40%	5.63%	4.71%	3.74%

Source: CRIF Highmark, CRISIL MI&A

Region wise GNPA in LAP Finance segment as of 9MFY24

Region-wise GNPA (90+DPD) in %age						
Region	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**9M FY24**
Urban Region	2.92%	3.73%	4.52%	4.57%	3.93%	3.35%
Semi-Urban Region	3.21%	4.14%	4.48%	4.59%	3.46%	2.79%
Rural Region	3.58%	4.70%	5.42%	5.74%	4.60%	3.48%
Others	2.51%	3.01%	3.04%	2.91%	2.43%	2.03%

Source: CRIF Highmark, CRISIL MI&A

Key factors driving competitiveness of HFCs in the LAP portfolio

Housing finance companies had the substantial market share among players in the loan against property portfolio segment during fiscal 2023, and have been able to maintain their share in the total market owing to various metrics in which HFCs have proven to be better than other players:

- Faster processing time in loans as compared to peers
- HFCs offer flexible repayment terms on LAPs as compared to other players

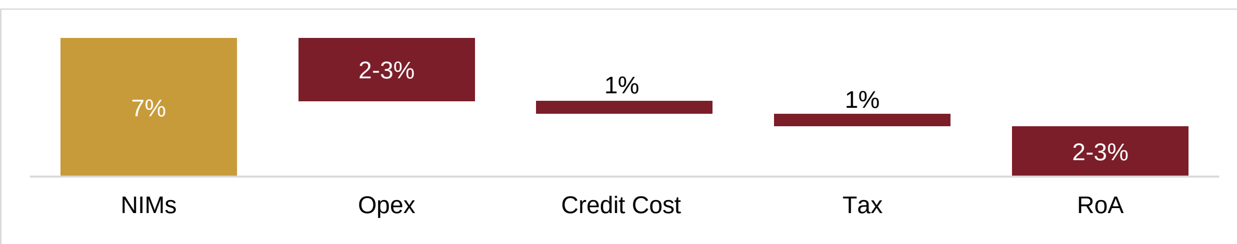
- HFCs have higher on-ground knowledge and a better understanding of the real estate market as compared to other peers, giving them a competitive edge among peers
- HFCs also have a higher expertise in underwriting the informal segment along with borrowers with no or limited credit information along with a focused underwriting process
- Higher degree of digitization during loan origination to disbursement process

With increase in data availability and enhanced use of technology and experience gained across several cycles while lending to the same customer segment, lenders have increased focus on the underserved MSME segment. This has led to a continued increase in share of relatively smaller ticket size secured MSME loans in the overall lending pie. Going forward, LAP market will see continued growth aided by increasing lender focus and penetration of such loans, enhanced availability of data increasing lender comfort while underwriting such loans, enhanced use of technology, newer players entering the segment, and government's continued support to enhance MSME lending

NBFC/HFCs Profitability in LAP improved in Fiscal 2024

NBFCs in LAP segment operate with yield in the range of 15-16%, on an average. With average cost of funds being in the range of 9-10%, net interest margins (NIMs) for this segment are in the range of 5-7%. CRISIL MI&A estimates the profitability in this segment to have increased in Fiscal 2024 owing to improving credit costs and improved asset quality.

Profitability of LAP financing NBFCs (FY2024)



Source: CRISIL MI&A; Profitability estimated for FY24.

Key Risks in the Overall LAP Loan Industry

Insufficiency of data for credit appraisal and Collateral Fraud: Credit-score availability in India is still at a nascent stage despite the presence of credit bureaus. In several cases, borrowers lack a formal proof of income documents. This makes it difficult to judge the ability of the borrower to repay. In the LAP loan industry, critical risks include the borrower's creditworthiness and income stability, potential documentation and processing errors, and fraud. Additionally, borrower-specific issues such as business downturns can affect repayment capacity. Effective risk management strategies involve thorough credit assessments, robust operational controls, and comprehensive borrower evaluations to minimize these.

Economic, Interest rate and Property-related risks: In the LAP loan industry, significant risks encompass property-related issues such as overvaluation, legal disputes related to unclear titles or ownership issues complicating loan recoveries, and market value fluctuations affecting the collateral's value, impactive the loan to value (LTV) ratio, along with interest rate variability affecting repayment capacity. Economic factors like downturns and sluggish real estate markets also pose threats. Effective risk management requires accurate property valuation, legal due diligence, monitoring interest rates, and staying attuned to economic conditions.

Overview of Real Estate Financing and Lease Rental Discounting

NBFC's Real Estate Financing Credit book to change direction owing to increasing developer's penetration in the Indian market

Over the past few fiscals, non-banking financial companies' (NBFCs) lending to the real-estate sector has undergone a considerable change in terms of size, complexity, and interconnectedness with the financial sector. Majority of housing finance companies (HFCs) are downsizing their real-estate portfolios due to asset quality concerns, but few are actively expanding and have been able to do well owing to prudent credit quality and monitoring, diversified portfolio books and quality customer sourcing strategy.

In recent years NBFC's real estate financing credit book to change directions owing increasing developer's penetration in the Indian markets. In the top 10 residential real estate cities, during fiscals 2021-23, the overall unsold inventory level continued to decline sequentially. Developers were restricting new launches during Covid year (FY21) and were cautious even during FY22. In post-pandemic environment where hybrid mode of work is established, consumer preferences have pivoted towards larger and bigger configurations in premium housing projects. In sync with this trend, large established developers have also gradually aligned their new launches to premium projects.

Top residential markets witnessed strong momentum in the past few fiscals supported by sustained economic growth and continuation of hybrid working models, growth is expected to continue in FY25 primarily due to necessity for larger living spaces and an enhanced lifestyle, catalysed by the pandemic.

Rising supply of housing projects helped in housing sales revival post pandemic

Top 10 Cities	FY21E	FY22E	FY23E	FY24E	FY25P
New Launches (No of Projects)	107	197	281	342	377
Total Inventory (No of Projects)	918	961	1,016	1,074	1,122
Demand (No of Projects)	154	226	284	322	341
Unsold Inventory (No of Projects)	763	734	731	745	780
Unsold Inventory as a % of Total Inventory	83.1%	76.4%	72.0%	69.4%	69.6%

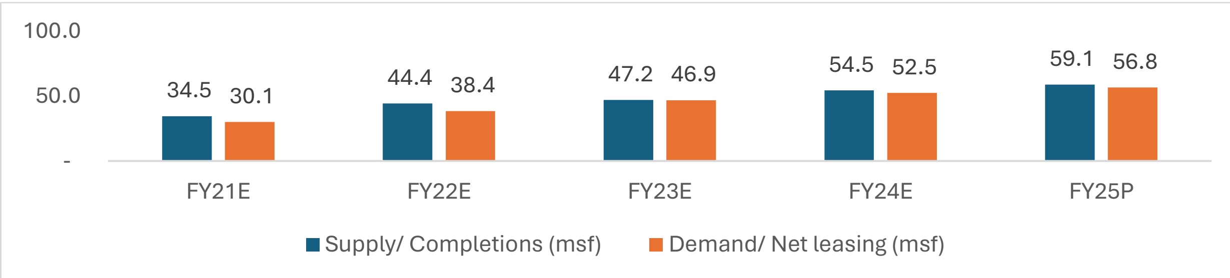
Note: Top 10 cities include Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Ahmedabad, Kochi, Chandigarh, Mumbai (MMR), and Pune, E: Estimates, P: Projected

Source: CRISIL MI&A estimates

Rising supply and demand of commercial real estate projects expected to grow

The commercial real estate market is expected to grow and expand supported by the healthy growth of Indian corporate and start-up ecosystem and their need for office space, strong office leasing trend and advent of the global capabilities centers (GCCs) of the multinationals. The overall supply and demand in the top 7 cities are expected to reach 59.1 million square feet (msf) and 56.8 million square feet (msf) respectively in fiscal 2025.

Demand for commercial real estate to reach 59.1 msf in fiscal 2025

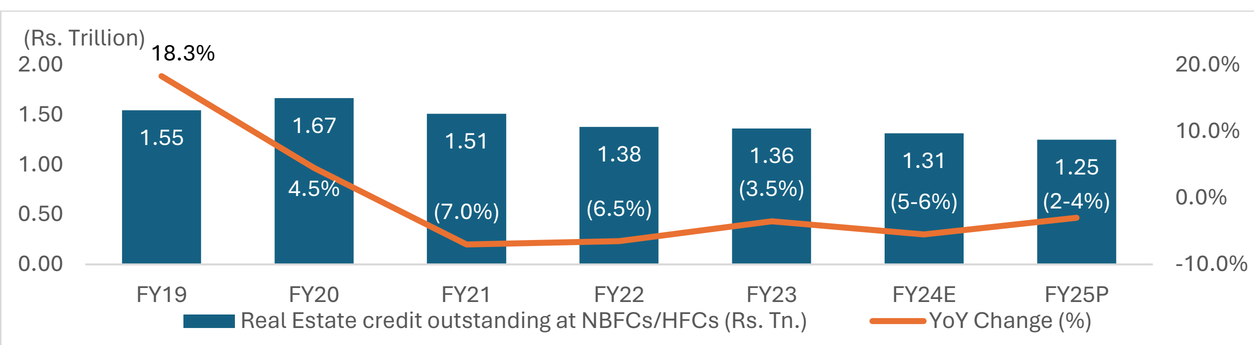


Note: Above numbers are for top 7 cities which account for more than 85% of commercial real estate in India, Top 7 cities include Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai (MMR), and Pune

Source: CRISIL MI&A estimates

NBFCs were cautious in lending to both the corporate and real-estate sectors. NBFCs have reported a decline in their lending to the segment, as they have been prioritising retail credit over wholesale lending. Volatile asset quality driven by high ticket sizes is the primary reason why these NBFCs have been gradually shedding their wholesale portfolios. Defaults in these loans result in elevated delinquencies, causing the increase in overall gross non-performing assets (GNPAs) and asset quality deterioration. Another reason is the risky nature of real-estate projects with high gestation periods. Consequently, wholesale, and real estate segment focused NBFCs face higher borrowing costs, leading to contracted net interest margins (NIMs) and return on assets (ROAs). Furthermore, over the last few fiscals, the real-estate industry has struggled to make projects viable due to adverse market conditions such as the introduction of goods and services tax for under-construction properties, labour shortage during the pandemic-driven lockdown and the rising cost of raw materials. However, the real-estate industry now stands on a more stable ground, with expectations of some unlocking in funding by NBFCs in fiscal 2025.

NBFCs' real-estate credit is estimated to have declined 5-6% in fiscal 2024



Note: Negative data points are mentioned in the brackets (). Data is of overall real-estate credit (residential and commercial) and is excluding of lease rental discounting (LRD)

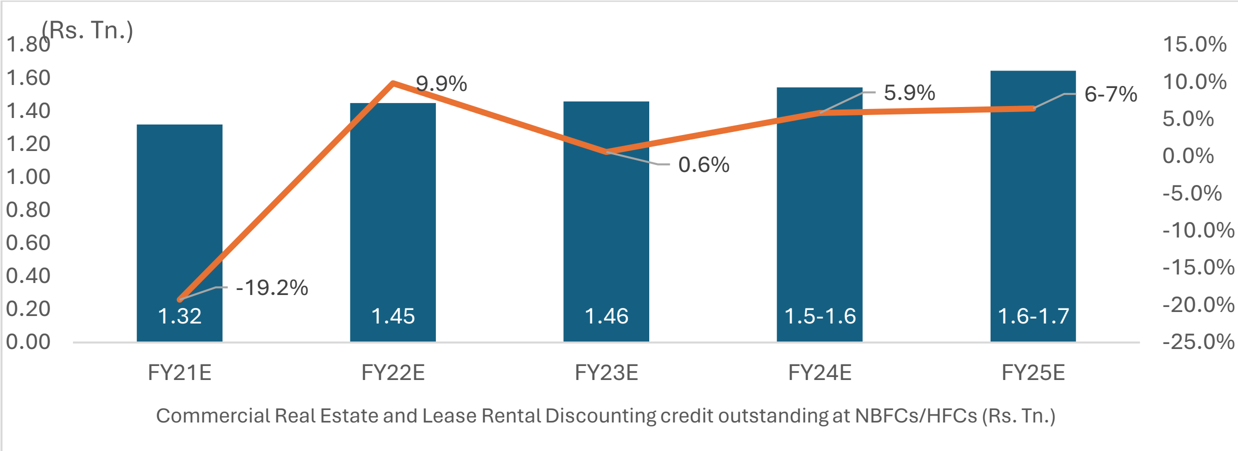
Source: Company reports, RBI, CRISIL MI&A

NBFCs real-estate lending declined to ~Rs 1.4 trillion in fiscal 2023 from ~Rs 1.6 trillion in fiscal 2019, primarily due to asset quality stress aggravating from pandemic-led lockdowns as real estate industry was already in considerable stress before Covid-19. This created periods of no activity and labour shortages, leading to extended construction timelines and financing challenges. Although NBFCs were already facing challenges related to tighter liquidity, riskier business models and asset liability mismatch resulting from DHFL and IL&FS crisis, post which growth and asset quality levels of the sector deteriorated. However, government interventions such as Real Estate Regulatory Authority extensions, low repo rates and reduced stamp duties supported developers by providing the much-needed boost to keep construction projects afloat. These concessions led to an improvement in sales, benefitting the entire ecosystem. The pandemic and its aftermath accelerated the growth of affordable housing market, outpacing other segments. This was fuelled by an uptick in affordable real-estate demand in Tier II and III cities. With a young population demographic, major cities have been burdened to fill the supply-demand gap in housing and commercial real estate. Since the pandemic has now subsided, demand for luxury and prime housing is on the rise. Affordable housing demand, on the other hand, has moderated due to lower affordability within the targeted segment. The traditional funding practices of developers included payments collected at the time of property booking, construction-wise payments from customers or their lenders, developers' own capital and bank or NBFC borrowings. Furthermore, sudden changes in economic and global conditions have rendered projects volatile, elevating the risk of bankruptcies. To address this, the Government of India has promoted a more diversified resource mix for developers, wherein they are introduced to the capital markets to raise capital through real-estate investment trusts (REITs) as an alternative financing source.

NBFCs' real-estate book plummeted 4% in fiscal 2023, driven by muted disbursements and lower exposure of players to real-estate portfolios. With further downsizing of wholesale and real-estate lending books, CRISIL MI&A Research believes NBFC funding for the real-estate segment contracted an estimated 5-6% to Rs, 1.31 trillion in fiscal 2024. However, in fiscal 2025, the decline is expected to normalise to (2-4%) as most of the portfolio transition by NBFCs is likely to have been completed. CRISIL MI&A expects NBFCs' real estate book to reach Rs. 1.25 trillion in fiscal 2025.

Prior to the 2018 financial crisis, NBFCs had expanded their real-estate portfolios aggressively. However, their portfolios have declined ever since. Only a select few NBFCs continue to expand their real-estate portfolios, and the growth is marginal. . A vacuum was created, and banks seized the opportunity and started expanding their position in the segment but few NBFCs/HFCs are actively expanding and have been able to do well owing to prudent credit quality and monitoring, diversified portfolio books and quality customer sourcing strategy. CRISIL MI&A expects NBFCs' real-estate credit to have declined an estimated 5-6% in fiscal 2024. Furthermore, funding is expected to stabilise in fiscal 2025 and lead to a marginal decline of 2-4% as NBFCs look to exit the real-estate lending space and offload their major share of real-estate exposure.

NBFC's Commercial Real Estate Book (including Lease Rental Discounting) is estimated to grow 6-7% in fiscal 2025



Note: E: estimated. Data is of commercial real-estate credit and is including of lease rental discounting (LRD)

Source: Company reports, RBI, CRISIL MI&A

The rising real estate prices and a preference for asset-light business models drive the inclination towards leasing over purchasing properties, particularly in sectors like Organised Retail and IT services. Leasing shifts capital expenditure to operating expenditure, eliminating the need for long-term resource raising to support corporate growth plans, in result driving the demand for lease rental discounting loan.

NBFCs commercial real-estate and lease rental discounting lending is estimated to have grown to Rs. 1.5-1.6 trillion from the low of Rs 1.32 trillion in fiscal 2021 primarily driven by the momentum in lease rental discounting portfolio of the NBFCs and HFCs. CRISIL MI&A expects the commercial real estate including lease rental discounting credit book to reached around Rs. 1.6-1.7 trillion in fiscal 2025 clocking growth rate of 6-8%.

Key Growth Drivers

Rise in urbanization to create demand for residential real estate in urban India : Urbanisation provides an impetus to housing demand in urban areas as migrants from rural areas require dwelling units. In 2020, about 35% of Indian population lived in urban areas of the country and this share of urban population is expected to increase to about 40% in by 2030. This trend in urbanization has pushed the demand for houses in urban areas.

Infrastructure development across India is driving growth in the real estate sector : The development of infrastructure plays a key role in enhancing the demand for residential estate. Infrastructure development leads to an increase in connectivity through railways, air, and road, reducing commute time. Well planned transportation infrastructure attracts investments and business which further creates demand for commercial and residential real estate. Also, other infrastructure development such medical facilities, educational institutions, entertainment hubs, retail market, business centers, schools, retail outlets etc. promote real estate prices as these infrastructure projects are the most preferred aspect for residential real estate buyers.

Focus on integrated lifestyle especially by millennial buyers : Nowadays, residential real estate buyers, especially millennials, have key preferences for their homes. These residential real estate buyers look for work-life balance and seek residences which offer modern amenities, vibrant communities, and access to leisure and entertainment options. They prefer integrated townships with gated communities which offer a variety of amenities such as fitness centers, swimming pools, and recreational spaces. Due to this, developers today are focusing on offerings to cater these lifestyle-based preferences, resulting in real estate development projects for aspirations and dreams of millennial generation.

Asset quality

Real Estate sector has greater levels of stress than other segments

Overall stress in the real estate segment has remained higher than other segments. CRISIL MI&A estimates the overall stress in the real estate book to be high as commercial real estate showed a deterioration in asset quality. The GNPAs for of non-banks (including HFCs) has moderated marginally during fiscal 2023, however, for few players the GNPAs are being on high double digit due to continued decline in real estate book and no new disbursements. CRISIL MI&A estimates the overall GNPA to have remained on a higher side at 10-12% during fiscal 2024.

Key Risks in the Overall Real Estate Financing Industry

Operational risk in project approvals and construction: Operational risks in real estate financing include project delays due to legal issues, funding shortfalls, or logistical challenges, and construction risks such as poor construction quality, labor shortages, and unreliable contractors. Effective project management, regular monitoring, and contingency planning are essential to mitigate these risks and ensure timely project completion.

Market and regulatory risks: In the real estate financing industry, market risks such as property price volatility and demand-supply mismatches, combined with regulatory and compliance risks like frequent policy changes and legal non-compliance, pose significant challenges. Also, the recent RBI draft guidelines related to sharp increase in provision for standard assets to 5% for all ned and ongoing under construction project loans, to have direct impact on cost of debt and limited impact on capital adequacy levels of NBFCs and HFCs. Effective risk management requires market analysis, adaptive strategies, and strict adherence to evolving regulations to ensure project stability and profitability.

Peer Benchmarking

Peer Comparison of Bajaj Housing Finance

For Peer Benchmarking, the following housing NBFCs were considered: Bajaj Housing Finance Limited, LIC Housing Finance Limited, PNB Housing Finance Limited, Can Fin Homes Limited, Tata Capital Housing Finance Limited, Aadhar Housing Finance Limited, Aavas Financiers Limited, Aptus Value Housing Finance India Limited and Home First Finance Company India.

Bajaj Housing Finance is the second largest HFC with assets under management of Rs. 913.7 billion as of fiscal 2024 and fastest growing HFC with CAGR of 29.3% between fiscal 2020 and fiscal 2024

Bajaj Housing Finance is the largest non- deposit taking HFC (in terms of AUM) in India within seven years of commencing mortgage operation.

As of fiscal 2024, Bajaj Housing Finance is the second largest HFC with Rs. 913.7 billion assets under management after LIC Housing Finance (Rs. 2,868.4 billion assets under management). Bajaj Housing Finance is the fastest growing HFC with 4-year CAGR (in terms of AUM) of 29.3% between fiscal 2020 and fiscal 2024 among the peers for which data is available, followed by Can Fin Homes (14.0%) in prime segment and Home First Housing (28.0%) in affordable player group. Bajaj Housing Finance also has the highest total income CAGR growth of 30.3% between fiscal 2020 and fiscal 2024.

Size of the companies (FY24)

Player Type	Players	AUM (Rs Billion) FY23	AUM (Rs Billion) FY24	AUM CAGR (FY20-FY24)	Total Income (Rs Billion) FY24	Total Income CAGR (FY20-FY24)
Prime	Bajaj Housing Finance Limited	692.3	913.7	29.3%	76.2	30.3%
	Can Fin Homes Limited	315.6	350.0	14.0%	35.2	14.8%
	LIC Housing Finance Limited	2,750.5	2,868.4	8.0%	272.3	8.4%
	PNB Housing Finance Limited	666.2	712.4	-4.1%	70.2	-4.6%
	Tata Capital Housing Finance Limited	386.2	NA	NA	51.9	14.6%
Affordable	Aadhar Housing Finance Limited	172.2	211.0	16.6%	25.2	16.5%
	Aavas Financiers Limited	141.7	173.1	22.1%	20.2	22.3%
	Aptus Value Housing Finance India Limited	57.6	67.6	20.7%	11.2	25.3%
	Home First Finance Company India	72.0	97.0	28.0%	11.6	28.8%

Note: NA: Data not available. Data is on standalone basis

Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance is one the largest HFC (in terms of AUM) in India with an AUM of Rs. 913.7 billion as of fiscal 2024 among other HFCs in NBFC-UL

The Reserve Bank of India (RBI) has identified 15 non-banking finance companies (NBFCs) for inclusion in the Upper Layer (NBFC-UL) under Scale Based Regulations (SBR) for non-bank lenders. These chosen NBFCs encompass a range of categories, including deposit-taking housing finance companies (HFC), non-deposit-taking HFC, deposit-taking NBFC-ICC (Investment and Credit Company), Non-deposit-taking NBFC-ICC, and core investment companies. Bajaj Housing Finance is a wholly owned subsidiary of Bajaj Finance Limited, which is among India's largest NBFCs, based on AUM (Rs. 3,306.2 billion), as of fiscal 2024.

Bajaj Housing Finance' AUM has grown at a CAGR of 30.9% from fiscal 2022 to fiscal 2024 and was Rs. 913.7 billion as of March 31, 2024, making it fourth fastest growing HFC/NBFC as compared to other "Upper Layer" NBFCs in India for which data is available. Bajaj Housing Finance is one of the largest HFCs (in terms of AUM) in India with as AUM of Rs. 913.7 billion as of fiscal 2024.

AUM and Profit details for upper layer NBFCs (FY2024)

Players	AUM (Rs Billion) FY22	AUM (Rs Billion) FY23	AUM (Rs Billion) FY24	AUM CAGR (FY22-FY24)	PAT (Rs Billion) FY22	PAT (Rs Billion) FY23	PAT (Rs Billion) FY24	PAT CAGR (FY22-FY24)
Bajaj Finance Limited	1,974.5	2,473.8	3306.2	29.4%	70.3	115.1	144.5	43.4%
LIC Housing finance Limited	2,511.2	2,750.0	2868.4	6.9%	22.9	28.9	47.7	44.3%
Shriram Finance Limited	1,270.4	1,856.8	2248.6	33.0%	27.2	59.8	71.9	62.6%
Tata Capital Financial Services Limited (Tata Capital Limited)#	943.5	1,167.9	1577.6	29.3%	16.5	23.0	31.5	38.3%
Cholamandalam Investment and Finance Company Limited	769.1	1,065.0	1535.7	41.3%	21.5	26.7	34.2	26.3%
Tata Sons Private Limited	977.6*	1,191.7*	NA	NA	404.4	282.1	NA	NA
Aditya Birla Finance Limited	551.8	805.6	1056.4	38.4%	11.1	15.5	22.2	41.6%
Mahindra & Mahindra Financial Services Limited	798.0	827.7	1026.0	13.4%	11.5	20.7	19.4	30.0%
Bajaj Housing Finance Limited	533.2	692.3	913.7	30.9%	7.1	12.6	17.3	56.2%
HDB Financial Services Limited	614.4	700.8	902.0*	21.2%	10.1	19.6	24.6	56.0%
Muthoot Finance Ltd	644.9	715.0	890.8	17.5%	40.3	36.7	44.7	5.3%
L&T Finance Limited	883.4	808.9	855.7	-1.6%	10.7	16.2	23.2	47.2%
PNB Housing Finance Limited	669.8	666.2	712.4	3.1%	8.4	10.5	15.1	34.3%
Piramal Capital & Housing finance Limited (Piramal Enterprises Limited)^	651.9	639.9	688.5	2.8%	20.0	99.7	-16.8	NM
Indiabulls Housing Finance Limited	722.1	670.2	653.4	-4.9%	11.8	11.3	12.2	1.7%

Note: (*) Data is of Loan assets, (^) Data is for Piramal Enterprise Limited as Piramal Capital and Housing Finance got merged. (#) Data is for Tata Capital Limited as Tata Capital Financial Services Limited got merged, NA: Not Available, NM: Not Meaningful

Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance has second highest loan disbursement by HFCs in India amounting to Rs. 446.6 billion in fiscal 2024

Bajaj Housing Finance has the second highest loan disbursal of Rs. 446.6 billion after LIC housing Finance with loan disbursement of Rs. 589.4 billion in fiscal 2024.

Bajaj Housing Finance has the second fastest PAT growth of 42.4% between fiscal 2020 and fiscal 2024 among the peers after Tata Capital Housing Finance (65.7%).

Income and Disbursement of the companies (FY24)

Player Type	Players	Disbursement (Rs Billion) FY23	Disbursement (Rs Billion) FY24	Fee Income (Rs million) FY24	Fee Income CAGR (FY20-FY24)	PAT (Rs Billion) FY24	PAT CAGR (FY20-FY24)
Prime	Bajaj Housing Finance Limited	343.3	446.6	1,382.3	8.4%	17.3	42.4%
	Can Fin Homes Limited	89.5	81.8	331.7	30.3%	7.5	18.9%
	LIC Housing Finance Limited	641.2	589.4	491.2	5.7%	47.7	18.7%
	PNB Housing Finance Limited	149.7	175.8	2,728.9	10.1%	15.3	22.3%
	Tata Capital Housing Finance Limited	173.4	NA	777.1	23.4%	11.5	65.7%
Affordable	Aadhar Housing Finance Limited	59.0	71.0	1,111.6	22.4%	7.5	41.1%
	Aavas Financiers Limited	50.2	55.8	867.1	27.1%	4.9	18.5%
	Aptus Value Housing Finance India Limited	NA	NA	312.1	31.3%	4.8	27.6%
	Home First Finance Company India	30.1	39.6	99.3	26.8%	3.1	40.0%

Note: NA: Data not available. Data is on standalone basis

Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance has highest share of salaried customer mix in home loan portfolio amongst large HFCs as of March 31, 2024

Bajaj Housing Finance focuses on mass affluent clients with an average age of 35-40 years and with an average annual salary of Rs. 1.3 million. Bajaj Housing Finance has the highest share of salaried customer at 88% among the peers for which data is available.

Bajaj Housing Finance is focused on prime housing with higher average ticket size amongst large HFCs. Bajaj Housing Finance has highest average ticket size of Rs. 4.6 million among the large HFCs for which data is available.

GNPA, Loan to value, Customer Profile Mix and Average Ticket Size of Peers – Fiscal 2024

Player Type	Players	Gross NPA Ratio (%)	Loan to Value** (LTV) %	Customer Mix (%)		Average Ticket Size (in
				Salaried	Self-Employed	

						Rs millions)
Prime	Bajaj Housing Finance Limited	0.22%	70%	88%	12%	4.6
	Can Fin Homes Limited	0.55%	61%[2]	72%	28%	2.5[$]
	LIC Housing Finance Limited	4.41%	52%	88%[3]	12%[3]	~2.9
	PNB Housing Finance Limited	3.83%	NA	61%	39%	2.9[&]
	Tata Capital Housing Finance Limited	1.55%	62%[1]	NA	NA	NA
Affordable	Aadhar Housing Finance Limited	1.17%	59%	57%	43%	1.0
	Aavas Financiers Limited	0.92%	55%[4]	40%	60%	1.02[*]
	Aptus Value Housing Finance India Limited	1.15%	<50%[5]	26%	74%	<1.00[^]
	Home First Finance Company India	1.60%	56%	68%	32%	1.15

Note: (**) LTV is for housing loan. "1" data is as of 9MFY24, "2" data is as of H1FY24,"3" Customer mix is basis the number of loans "4" data is as of H1FY24,"5" Data is as of FY23 for the around 87% of the loan portfolio, (*) ATS for Housing Loan, (^) ATS for 93% of the Portfolio, ($) ATS for Incremental Housing Loan, (&) data is for Individual Home Loan , NA: Data not available. Data is on standalone basis

Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance is the most diversified HFC in India with offerings full suite of mortgage lending products

Bajaj Housing Finance is the most diversified HFC in India with offerings full suite of mortgage lending products with AUM mix of Housing loan (58%), Loan against property (10%), Lease rental discounting (19%), Developer finance (11%) and other products (2%).

Product AUM Mix (%) for Peers (FY2024)

Player Type	Player	Product Category	AUM Mix (%)
Prime	Bajaj Housing Finance Limited	Housing Loan	58%
		Loan Against Property	10%
		Lease Rental Discounting	19%
		Developer Finance	11%
		Others	2%
	Can Fin Homes Finance Limited	Housing Loans	78%
		Housing Commercial Real Estate	10%
		Loan Against Property & Mortgage Loan	5%
		Top Up Loans	2%
		Others	5%
	LIC Housing Finance Limited	Individual Housing Loan	85%
		Non-Housing Individual Loan	10%
		Non-Housing Corporate- Project Loans	3%
		Non-Housing Corporate- Others	2%
	PNB Housing Finance Limited	Retail Loan	97%
		Individual Home Loan	*72%*

		Retail Non-Housing Loan	*28%*
		Corporate Loan	3%
	Tata Capital Housing Finance Limited	NA	NA
Affordable	Aadhar Housing Finance Limited	Home Loans	75%
		Other Mortgage Loans	25%
	Aavas Financiers Limited	Home Loans	69%
		MSME (Secured by mortgage)	17%
		Other Mortgage Loans	14%
	Aptus Value Housing Finance Limited	Home Loans	69%
		Quasi Home Loans	23%
		Insurance Loans	4%
		Top up Loans	4%
	Home First Finance Company India	Housing Loans	86%
		Shop Loans	1%
		Loan Against Property	13%

Note: NA: Data not available.

Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance is second most profit making HFC in India with strong return on average assets and return on average equity for the fiscal year ended March 31, 2024

Bajaj Housing Finance is the second most profit making HFC (Rs. 17.3 billion) in India with strong return on average assets and return on average equity for the year ended March 31, 2024.

Bajaj Housing Finance has the second highest return on average assets (2.4%) for the year ended March 31, 2024, among the prime housing peers. Bajaj Housing Finance has one of the lowest credit costs (0.1%) among peers.

Profitability parameters – Fiscal 2024

Player Type	Players	PAT (Rs. Billion)	Yield on advances* (%)	NII (%)	PPoP (%)	Cost of funds (%)	Opex (%)	Credit cost (%)	ROAA (%)	ROAE (%)	Leverage (TA/TE) (times)
Prime	Bajaj Housing Finance Limited	17.3	10.2%	3.4%	3.0%	7.7%	1.0%	0.1%	2.4%	15.2%	6.7
	Can Fin Homes Limited	7.5	10.6%	3.6%	3.0%	7.3%	0.7%	0.2%	2.2%	18.8%	8.4
	LIC Housing Finance Limited	47.7	9.9%	3.0%	2.7%	7.4%	0.4%	0.6%	1.7%	16.3%	9.3
	PNB Housing Finance Limited	15.3	11.0%	3.5%	3.1%	7.8%	0.9%	0.2%	2.2%	11.8%	4.8
	Tata Capital Housing Finance Limited	11.5	11.0%	4.0%	2.9%	7.1%	1.8%	-0.3%	2.4%	19.8%	8.1
Affordable	Aadhar Housing Finance Limited	7.5	14.8%	7.2%	5.6%	7.6%	3.0%	0.2%	4.2%	18.4%	4.3
	Aavas Financiers Limited	4.9	13.6%	6.1%	4.3%	7.5%	3.6%	0.2%	3.3%	13.9%	4.4

	Aptus Value Housing Finance India Limited	4.8	16.4%	10.4%	9.1%	8.7%	2.3%	0.3%	6.8%	14.7%	2.2
	Home First Finance Company India	3.1	14.5%	6.5%	5.2%	8.3%	2.8%	0.3%	3.8%	15.5%	4.5

Note: (*) Yield on advances is calculated on interest income. Data is on standalone basis

Source: Company Reports, CRISIL MI&A

Profitability parameters – FY2023

Player Type	Players	Yield on advances (%)	NII (%)	PPoP (%)	Cost of funds (%)	Opex (%)	Credit cost (%)	ROAA (%)	ROAE (%)	Leverage (TA/TE) (times)
Prime	Bajaj Housing Finance Limited	9.6%	3.6%	3.2%	6.8%	1.1%	0.2%	2.2%	14.6%	6.2
	Can Fin Homes Limited	9.1%	3.3%	2.8%	6.3%	0.6%	0.1%	2.0%	18.5%	9.1
	LIC Housing Finance Limited	8.6%	2.4%	2.1%	6.9%	0.4%	0.7%	1.1%	11.2%	10.3
	PNB Housing Finance Limited	10.3%	3.4%	3.1%	7.3%	0.8%	1.0%	1.6%	10.2%	6.1
	Tata Capital Housing Finance Limited	10.9%	4.4%	3.2%	6.6%	1.8%	0.1%	2.3%	19.5%	8.4
Affordable	Aadhar Housing Finance Limited	13.0%	6.3%	5.0%	7.0%	2.7%	0.3%	3.5%	15.9%	4.5
	Aavas Financiers Limited	12.6%	6.5%	4.7%	6.6%	3.7%	0.1%	3.5%	14.2%	4.1
	Aptus Value Housing Finance India Limited	16.9%	11.2%	9.8%	8.3%	2.4%	0.5%	7.2%	14.5%	2.1
	Home First Finance Company India	13.3%	7.1%	5.3%	7.3%	2.9%	0.4%	3.9%	13.5%	3.7

Note: Data is on standalone basis

Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance has the lowest GNPA and NNPA amongst peers in fiscal 2024

As of fiscal 2024, Bajaj Housing Finance has lowest GNPA ratio of (0.27%) and NNPA ratio of (0.10%), among large HFCs in India as of March 31, 2024. Bajaj Housing Finance also has the highest provision coverage ratio (63.0%) amongst its peers as of fiscal 2024.

Capitalisation and asset quality – FY24

Player Type	Players	Capital adequacy ratio	Provision Coverage Ratio	Gross NPA ratio	Net NPA ratio
Prime	Bajaj Housing Finance Limited	21.3%	63.0%	0.27%	0.10%
	Can Fin Homes Limited	24.6%	48.8%	0.82%	0.42%
	LIC Housing Finance Limited	18.2%	50.8%	3.31%	1.63%
	PNB Housing Finance Limited	29.3%	36.7%	1.50%	0.95%
	Tata Capital Housing Finance Limited	NA	57.9%	0.95%	0.40%
Affordable	Aadhar Housing Finance Limited	38.5%	40.9%	1.10%	0.65%
	Aavas Financiers Limited	44.0%	28.7%	0.94%	0.67%

	Aptus Value Housing Finance India Limited	66.8%	25.2%	1.07%	0.80%
	Home First Finance Company India	39.5%	29.4%	1.70%	1.20%

Note: NA: Data not available. Data is on standalone basis
Source: Company Reports, CRISIL MI&A

Capitalisation and asset quality – FY23

Player Type	Players	Capital adequacy ratio	Provision Coverage Ratio	Gross NPA ratio	Net NPA ratio
Prime	Bajaj Housing Finance Limited	23.0%	63.6%	0.22%	0.08%
	Can Fin Homes Limited	23.1%	52.7%	0.55%	0.26%
	LIC Housing Finance Limited	18.2%	43.3%	4.41%	2.50%
	PNB Housing Finance Limited	24.4%	27.9%	3.83%	2.76%
	Tata Capital Housing Finance Limited	18.2%	59.4%	1.55%	0.63%
Affordable	Aadhar Housing Finance Limited	42.7%	34.2%	1.17%	0.77%
	Aavas Financiers Limited	47.0%	26.1%	0.92%	0.68%
	Aptus Value Housing Finance India Limited	80.8%	25.2%	1.15%	0.86%
	Home First Finance Company India	49.4%	31.3%	1.60%	1.10%

Note: NA: Data not available. Data is on standalone basis
Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance has the second highest AUM per branch (Rs. 4,249.8 million) and AUM per employee (Rs. 385.2 million) as of March 31, 2024, among the large HFCs for which data is available

As of fiscal 2024, Bajaj Housing Finance has the second highest AUM per branch of Rs 4,249.8 million as of Fiscal 2023 after LIC Housing Finance (Rs. 9,253.0 million) and the second highest AUM per employee of Rs 385.2 million as of Fiscal 2023 after LIC Housing Finance (Rs. 1,194.7 million) among the players for which data is available.

Distribution footprint and Productivity of Peers – Fiscal 2023 and Fiscal 2024

Player Type	Players	Branches		Employees		AUM/Branch (Rs. Million)		AUM/Employee (Rs. Million)	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Prime	Bajaj Housing Finance Limited	208	215	2788	2372	3,328.3	4,249.8	248.3	385.2
	Can Fin Homes Limited	205	219	976	NA	1,539.7	1,598.1	323.4	NA
	LIC Housing Finance Limited	314	310	2462	2401	9,788.1	9,253.0	1,117.2	1,194.7
	PNB Housing Finance Limited	189	300	1690	NA	3,524.7	2,374.8	394.2	NA
	Tata Capital Housing Finance Limited	187	NA	2445	NA	2,065.1	NA	157.9	NA
Affordable	Aadhar Housing Finance Limited	479	523	3663	NA	359.6	403.4	47.0	NA
	Aavas Financiers Limited	346	367	6034	NA	409.4	471.7	23.5	NA

	Aptus Value Housing Finance India Limited	231	262	2405	2918	249.4	258.0	24.0	23.2
	Home First Finance Company India	111	133	993	1249	648.5	729.2	72.5	77.6

Note: NA: Data not available. Data is on standalone basis
Source: Company Reports, CRISIL MI&A

Cost and Opex for Peers -- Fiscal 2023 and Fiscal 2024

FY24	Players	Cost to Income Ratio		Opex (%)	
		FY23	FY24	FY23	FY24
Prime	Bajaj Housing Finance Limited	25.7%	24.0%	1.1%	1.0%
	Can Fin Homes Limited	16.9%	19.9%	0.6%	0.7%
	LIC Housing Finance Limited	15.2%	13.0%	0.4%	0.4%
	PNB Housing Finance Limited	20.6%	22.4%	0.8%	0.9%
	Tata Capital Housing Finance Limited	35.9%	38.3%	1.8%	1.8%
Affordable	Aadhar Housing Finance Limited	43.5%	41.8%	2.7%	3.0%
	Aavas Financiers Limited	44.1%	45.6%	3.7%	3.6%
	Aptus Value Housing Finance India Limited	19.8%	20.1%	2.4%	2.3%
	Home First Finance Company India	35.5%	35.2%	2.9%	2.8%

Note: NA: Data not available. Data is on standalone basis
Source: Company Reports, CRISIL MI&A

Bajaj Housing Finance has the highest possible credit ratings in India for both the long-term as well as short-term borrowings programme

Bajaj Housing Finance has the highest possible credit ratings in India for both the long term (CRISIL AAA/stable and IND AAA/stable) as well as short term (CRISIL A1+ and IND A1+) borrowings programme.

Credit Ratings of Players (FY2024)

Player Type	Players	Credit Rating
Prime	Bajaj Housing Finance Limited	IND AAA, CRISIL AAA
	Can Fin Homes Limited	ICRA AAA, CARE AAA
	LIC Housing Finance Limited	CRISIL AAA
	PNB Housing Finance Limited	IND AA+, ICRA AA+, CARE AA+
	Tata Capital Housing Finance Limited	CRISIL AAA
Affordable	Aadhar Housing Finance Limited	IND AA
	Aavas Financiers Limited	ICRA AA, CARE AA
	Aptus Value Housing Finance India Limited	ICRA AA-, CARE AA-
	Home First Finance Company India	IND AA-

Note: NA: Data not available. Data is on standalone basis
Source: Company Reports, CRISIL MI&A

Borrowing Mix of Players (FY2024)

Player Type	Players	Borrowing Mix				
		Term Loan	NCD/Bonds	Commercial Papers	NHB	Others
Prime	Bajaj Housing Finance Limited	51%	35%	-	10%	4%
	Can Fin Homes Limited	59%	17%	7%	16%	1%
	LIC Housing Finance Limited	34%	52%	5%	4%	5%
	PNB Housing Finance Limited	40%	10%	6%	9%	35%
	Tata Capital Housing Finance Limited	NA	NA	NA	NA	NA
Affordable	Aadhar Housing Finance Limited	55%	20%	-	25%	-
	Aavas Financiers Limited	48%	9%	-	20%	24%
	Aptus Value Housing Finance India Limited	63%	5%	-	24%	8%
	Home First Finance Company India	62%	3%	-	18%	17%

Note: NA: Data not available Data is on standalone basis
Source: Company Reports, CRISIL MI&A

ALM Position of Players (Fiscal 2023)

Player Type	Player	Asset (Rs. Bn)		Liabilities (Rs. Bn)		Net (Rs. Bn)		Asset-Liability Ratio*	
		Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months	Within 12 Months	After 12 Months
Prime	Bajaj Housing Finance Limited	43.3	603.3	124.2	417.3	-80.9	186.0	34.8%	144.6%
	Can Fin Homes Limited	35.7	295.0	105.7	225.0	-70.0	70.0	33.7%	131.1%
	LIC Housing Finance Limited	211.5	2,572.6	918.8	1,594.3	-707.3	978.3	23.0%	161.4%
	PNB Housing Finance Limited	92.7	575.3	234.4	324.1	-141.7	251.2	39.6%	177.5%
	Tata Capital Housing Finance Limited	105.5	301.1	102.0	256.0	3.6	45.1	103.5%	117.6%
Affordable	Aadhar Housing Finance Limited	36.3	129.8	30.2	99.0	6.1	30.8	120.3%	131.1%
	Aavas Financiers Limited	33.9	100.2	16.8	84.6	17.1	15.6	201.4%	118.5%
	Aptus Value Housing Finance India Limited	10.5	55.8	7.4	27.7	3.0	28.1	140.4%	201.3%
	Home First Finance Company India	14.4	53.0	11.6	37.6	2.8	15.4	123.8%	141.0%

*Note: * Asset to liabilities ratio is calculated by dividing the percentage of assets maturing in the specified period by percentage of liabilities maturing at the same time. Data is on standalone basis.*

Source: Company reports, CRISIL MI&A

List of formulae

Parameters	Formula
RoAA	Profit after tax / average of total assets on book
RoAE	Profit after tax / average net worth
NII	(Interest income – interest paid) / average of total assets on book
Yield on advances	Interest earned on loans and advances / average of total advances on book
Cost to income	Operating expenses / (net interest income + other income)
Leverage (TA/TE)	Total Asset / Shareholders equity
Cost of borrowings	Interest paid / (average of deposits and borrowings)
Operating Expenses (Opex)	Operating Expenditure (Employee Expenses + Depreciation and amortization expense + Fees and commission expense+ Other expenses) / average of total assets on book
PPoP	(Total Income – Interest paid – Opex) / average of total assets on book
Credit cost	Provisions / average total assets on book
Debt to Equity	Total Borrowings / Total shareholder equity of the same fiscal
AUM/Branch	Asset under management / total number of Branches
AUM/Employee	Asset under management / total number of Employee

About CRISIL Market Intelligence & Analytics

CRISIL Market Intelligence & Analytics, a division of CRISIL, provides independent research, consulting, risk solutions, and data & analytics. Our informed insights and opinions on the economy, industry, capital markets and companies drive impactful decisions for clients across diverse sectors and geographies.

Our strong benchmarking capabilities, granular grasp of sectors, proprietary analytical frameworks and risk management solutions backed by deep understanding of technology integration, make us the partner of choice for public & private organisations, multi-lateral agencies, investors and governments for over three decades.

About CRISIL Limited

- CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.
- It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.
- It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong, UAE and Singapore.
- It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

for more information, visit www.crisil.com

Connect with us: LINKEDIN | TWITTER | YOUTUBE | FACEBOOK | INSTAGRAM

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your personal information, such as your name, location, contact number and email id to fulfil your request, service your account and to provide you with additional information from CRISIL. for further information on CRISIL's privacy policy please visit www.crisil.com/privacy.